

FINANCIAL TIMES

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Soviet Union
turns to
Egypt, Page 16

World news Business summary

Summit offer to Moscow renewed

The White House yesterday renewed President Ronald Reagan's invitation to Mr Mikhail Gorbachev, the Soviet leader, to attend a summit meeting in the US this year.

Mr Larry Speakes, the White House spokesman, said there had been "no direct suggestions from the Soviets that indicate a desire to follow up on their commitment for a summit in the United States in 1987."

The President believes additional meetings can build on the major progress already achieved... the President's invitation for a US summit remains open. Page 16

Afghan peace bid

The Soviet Union stepped up efforts to end the war in Afghanistan by sending Edward Shevardnadze, Foreign Minister, and Anatoly Dobrynin, International Affairs Secretary, to the capital Kabul for talks.

Chad raid reply

France planned no immediate retaliation against the Libyan bombing raid in southern Chad on Sunday in an effort to prevent a further intensification of the conflict. Page 3

US crash kills 14

The death toll in the 100 mph collision between a passenger train and a freight train near Baltimore and two freight engines reached 14 with 177 injured.

Beirut manager held

Four gunmen kidnapped the Lebanese Christian director of a big engineering consultancy in Moslem-controlled west Beirut, police said.

Kohl under attack

West German Chancellor Helmut Kohl's allegation that East Germany was holding 2,000 of its countrymen as political prisoners in concentration camps drew domestic charges that he was comparing East Germans with Nazis. Page 2

Soviet satellite offer

Soviet Prime Minister Nikolai Ryzhkov said Moscow was prepared to launch satellites for Third World countries on preferential terms as part of a drive to enter the lucrative commercial space market. Page 16

Italian wage deal

The Italian Government signed a three-year wage deal for civil servants which will yield rises well ahead of expected inflation. Page 2

Visits suspended

France has suspended official visits to Australia in protest against Canberra's unfriendly attitudes to French policy in the South Pacific.

Spanish air strike

More than 5,000 passengers were stranded during a 24-hour work stoppage by ground staff of Spain's state domestic airline, which cancelled three-quarters of its flights.

Sri Lankan 'siege'

The Sri Lankan Government was trying to create a Biafra-like siege in the Jaffna peninsula by stopping fuel supplies there, Major Kittu, regional commander of the Tamil Liberation Tigers, said. Page 3

1988 Olympics fear

South Korean officials said they would try to improve relations with China, the Soviet Union and Eastern bloc countries to avoid a communist-led boycott of the 1988 Seoul Olympics.

Bird of ill omen

An Argentine man told police he received a death threat by way of a carrier pigeon that had been stolen from his home. Jose Iglesias, 34, said the pigeon came flying home with message in its feet reading: "Buddy, I'm going to kill you at any moment. Behave yourself."

Wall St stocks surge to peaks

WALL STREET share prices surged to record levels as investors continued to return to the market after heavy tax-related selling at the end of the year. The Dow Jones industrial average closed at 1,971.32 with the rise of 44.01 points also breaking the record for the largest points gain in a day. Page 34

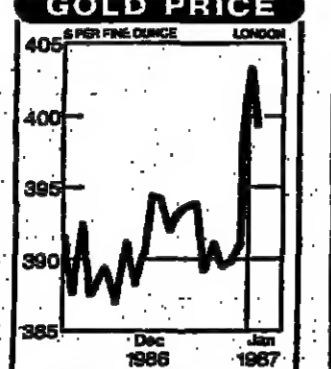
CAMPRAU, Canadian property developer, is to sell assets in US department stores group Allied Stores, less than a week after it paid at least \$3.4bn for the group in a takeover battle. Page 17

LONDON securities markets had an uncertain start, with gilts giving up some of last week's gains and equities falling to follow Wall Street's rise. The FT Ordinary index added 2.6 to 1,322.80 while the FT-SE 100 index showed a loss of 1.1 to 1,680.0. Long-dated bonds ended about 14 lower in thin trading. Page 34

TOKYO: Share prices opened lower but rallied to close higher and the Nikkei average rose 119.25 to 18,320.55. Page 34

GOLD fell \$4.00 to \$399.25 on the London bullion market. It rose in Zurich to \$399.70 (\$399.25). Page 28

GOLD PRICE



DOLLAR rose in London to DM 1.9305 (DM 1.9175); to Sfr 1.8385 (Sfr 1.8069); to Y158.65 (Y158.26); and to FF 1.3650 (FF 1.35). On Bank of England figures the dollar's index rose to 108.2 from 107.1. Page 27

STERLING in New York closed at \$1.4775. It fell in London to \$1.4725 (\$1.4735); it also declined to DM 2.6425 (DM 2.6575); to FF 9.42 (FF 9.4850); and to Y234.75 (Y235.75); but was unchanged at Sfr 2.3975. The pound's exchange rate index fell 0.7 to 68.2. Page 27

BOCKWILL, leading US manufacturer of military aircraft, electronics, space systems and rocket engines, plans to introduce 200m convertible common shares carrying 10 votes each in a defensive tactic, though the board says it is unaware of any proposals involving control of the corporation. Page 17

JOHN FAIRFAX group's intervention in the Australian takeover battle for the Herald and Weekly Times media giant helped drive the Australian stock exchange's All-Ordinaries index up 16.2 points to close at 1,503.1, while increasing pressure on Mr Rupert Murdoch to improve his bid for the media group. Details, Page 17; Market Report, Page 34

SIEMENS, West German electrical and electronics group, is stepping up its assault on the US telecommunications market with a \$165m deal to take control of the main operations of Florida communications group Telecom Plus International. Page 17

SALOMON BROTHERS topped the list of the most active underwriters in the US corporate debt market for the fourth consecutive year with an estimated \$44.33bn of general and convertible securities. Page 17

COCKERILL-SAMBER, Belgian state-controlled steel group, faces a possible revision of a \$Fr 27bn (\$800m) loan, Belgium's Finance Ministry said. Negotiations between major banks involved and the Government are expected to be completed by the middle of next month. Page 18

US budget proposals set stage for bruising political battle

Reagan warns on need for sharp cut in deficit

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MAIN POINTS

- Defence: a 3 per cent rise in real terms to \$122bn;
- Privatisation: at least \$5bn to be raised from the sales of assets including Amtrak passenger train service, oil fields and radio wavelengths;
- Farm aid: cuts in direct payments and price support loans aimed at saving \$24bn between 1988 and 1992;
- Education: cuts of \$4bn, including phasing out of legal aid services;
- Health and welfare: savings of \$7.2bn in 1988, including cuts in Medicaid spending and veterans' entitlements and increases in Medicare premiums;
- Foreign aid: \$11bn increase in aid to allies, including \$100m for the Nicaraguan Contra rebels.

The figure is just below the \$108bn target mandated by Congress under the Gramm-Rudman-Hollings budget process reform law. By meeting this target, and by doing so without resorting to a proposal to increase corporate or personal taxes, the Administration hopes to exert maximum political pressure on the newly Democratic-controlled Congress further to reduce federal spending.

Mr Reagan's budget sets the stage for a bruising political battle with Capitol Hill as Republicans and Democrats manoeuvre for political advantage in the run-up to the 1988 presidential election.

Some of the political themes running through the budget proposals are familiar. Alongside Mr Reagan's rejection of increased taxes there is a call for an end to recent congressional action to cut defence spending.

However, the President's proposed increase of 3 per cent in real terms in defence spending authority to \$122bn is the smallest he has called for since taking office, a response to the political realities now that the Democrats control Capitol Hill and public support for defence spending has weakened.

Within the defence budget Mr Reagan is asking Congress to restore cuts made in funding the strategic defence initiative and to increase budget authority to \$122bn from \$118bn this year.

The President is also urging Congress to reverse this year's "damaging cuts" in the US foreign aid programme partly so that the US can finance large-scale US projects to multilateral development banks including the World Bank. In spite of the controversy over arms sales to Iran and funding for the Contra rebels in Nicaragua, he also asks for \$105m of financial support for the rebels.

A new theme Mr Reagan is adopting is the importance of new initiatives aimed at improving the international competitiveness of the US economy.

This surfaces partly in the context of proposed increases in government funding for various government-sponsored research projects.

The White House proposes a sharp increase in spending on research into the Acquired Immune Deficiency Syndrome (Aids) illness. In response to political pressure significant increases in spending are also proposed for aviation safety and for job training for unemployed workers.

Continued on Page 16
Details: Reagan underpins operation, Page 4

Challenge for Democratic Party

BY OUR US EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan yesterday presented the Democratic Party with a major challenge to its declared objective of proving over the next two years that it can use the control of both the Senate and the House of Representatives to demonstrate its ability to govern the country.

The White House budget proposal meets the ambitious \$108bn target for reducing the federal budget deficit in fiscal year 1988.

Moreover, it does so in ways which, while not free of the accounting gimmickry which has come to characterise US budgeting, are not so unrealistic that the Democratic leaders can pour scorn on the President's plan and ignore it.

The economic assumptions, projecting real growth year on year of just over 3 per cent in 1987 and 3.5 per cent in 1988 are not far out of line with what many private economists are expecting. There are, however, widespread fears that continued US dependence on foreign

capital for this growth means that the risks are increasing of an abrupt and painful end to the long economic upswing that Mr Reagan has enjoyed since 1983.

Even Mr Reagan's defence spending request, a real rise of 3 per cent in budget authority, does not present congressional Democrats with the easy political target which the White House has provided in past years with its inflated military spending proposals.

Many influential Democrats, such as Senator Sam Nunn, the newly installed chairman of the Armed Services Committee, may not want to see a third successive year of declining defence authorisations. Were the Democrats to turn again to the Pentagon in search of major spending cuts they would be vulnerable in the presidential election year of 1988, to Republican charges that they do not take the country's national security interests seriously.

In the past years of the Reagan presidency, the Democratic Party

has enjoyed the luxury of being able to take something of a back seat in the early stages of the budget debate. With the Senate in Republican hands, budget making has been primarily the responsibility of the White House and the Republicans. Now that the Democrats have added control of the Senate to their control of the House they are being forced to take the initiative in presenting an alternative to the President's plan.

"The spotlight is going to move," says Mr William Gray, Democratic chairman of the House Budget Committee. "It is not going to be enough for the Democrats to stand up and complain. It is important for us to come up with solutions. We now have the challenge of governing."

In his budget, Mr Reagan makes clear that the options the Democrats face are not attractive. The White House estimates that the Federal budget deficit in 1987 will be \$173.2bn, some \$55bn above the \$108bn target for 1988 set by the

Gramm-Rudman-Hollings budget reform law which called for annual budget reductions aimed at eliminating the deficit in 1991.

Past cuts, in particular the slow-down in defence spending growth plus favourable economic assumptions will tend to reduce the 1988 deficit to around \$150bn if no action is taken. The Administration projects the fall in interest rates will stabilise the Federal Government's interest bill at around \$140bn over the next four years.

Mr Reagan proposes to get to the \$108bn target partly by launching an attack on major legally established spending programmes including farm subsidies, medical and retirement programmes and private sector subsidies designed to cut spending by \$18.7bn in 1988 and \$49bn in 1991.

On the other side of the balance sheet, privatisation proposals including the sale of the Government-owned Amtrak railway system and increased user fees, including fees

Continued on Page 16

Chirac braced for intensified strike action

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government last night was bracing itself to fend off what it considers to be a major challenge to its anti-inflationary policy stemming from the public sector strikes and demonstrations planned for today.

At the same time, Mr Jacques Chirac, the Prime Minister, delivered an implicit warning to President Francois Mitterrand not to exceed his powers as laid down by the constitution. Mr Mitterrand last week received a delegation of striking railwayworkers - a move which was taken by the Government as lending support to the strike.

Severe disruption is expected on the Paris Metro (underground railway) today after three of the major unions walked out of fresh negotiations with the management over pay and conditions. But the French railways (SNCF) claimed a continuing return to work among striking train drivers, with 30 per cent back at work compared with 10 per cent last Wednesday.

The Paris urban transit system (RATP) declined to improve on its pay offer of a 2.9 per cent increase this year. The management's refusal to yield more reflects the tough line on public sector salaries being taken by Mr Chirac, who has limited increases to 3 per cent.

The Communist-led CGT union has called for strikes or demonstrations throughout the public sector today - including the electricity and gas industry, the docks and the naval shipyards. Mr Chirac's hope is that if he can ride out this challenge his Government will emerge strengthened from the test.

The Prime Minister has called all his ministers to a meeting this morning to discuss the strike. He is due to broadcast to the nation this evening.

Some of Mr Chirac's supporters are pressing for a wider attack against the President who, they argue, is acting more like the leader of the Socialist party than a head of state.

The SNCF claimed that 40 per cent of mainline services were operating normally yesterday on the 18th day of the train strike. High-speed (TGV) trains were running 85 per cent normally, it said. The continuing improvement was said to be due in part to riot police preventing drivers blocking rail tracks.

Reflecting this improved outlook pressure on the franc eased marginally yesterday, helping the French currency to rise from its record low of FFfr 3.3120 last Friday, to FFfr 3.3075 at yesterday's fixing. Background, Page 2

Peking Daily becomes focus of protests

BY ROBERT THOMSON IN PEKING

THE Peking Daily, the voice of the city's government, went up in a column of smoke today, as several hundred Chinese students threw it and other Communist Party newspapers and magazines on a bonfire fuelled by grain alcohol and encouraged by chants of "burn, burn, burn."

In a generally good-humoured protest, Peking University students suggested that the paper "go to hell" for its unfair coverage of the student democracy movement, which has been presented to the Chinese public as a childish group naively inspired by either Taiwanese-backed spies or petty criminals.

Copies of the People's Daily, the main Communist Party organ, and Red Flag, the party's theoretical journal, were also set alight, but the students' main target was the Peking Daily, which has been the "tongue of the leftists," according to one student.

"Leftists" in China are blamed for the chaos of the Cultural Revolution, and the present Government is sometimes said to be run by "rightists."

Students standing around the flames, which warmed them in the sub-zero cold, were angry about the media presenting them as being opposed to the Chinese leader, Deng Xiaoping, denied claims that they are not socialists, and said the press was trying to put a wedge between them and the Chinese people.

Diplomats suggest that the tough tone of the Peking Daily could reflect a split between the central and city governments over the handling of the student protests or show that conservative Communist Party officials have a stronger grip on the paper.

Peking authorities were apparently infuriated when students detained at a demonstration last week

Continued on Page 16

WHEN UNITED TECHNOLOGIES WANTED A NEW EUROPEAN BASE, PETERBOROUGH WON BY MILES.



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EUROPEAN NEWS

David Housego reports on a strike whose cause goes beyond the pay issue
French rail drivers stand firm for their rights

IN THE drivers' depot at the Gare du Nord in Paris yesterday there was no doubt that the 10-day train strike was now heading towards a climax.

"We've reached the turning point," said Jean-Claude, 42, a striking driver on the northern suburban network of Paris. "We will either win through or the strike will collapse. It won't go beyond this week."

Only four of the 240 drivers at the depot had reported for work yesterday—showing that the strike is still massively supported in one of Paris's mainline stations. Outside riot police patrolled the tracks to a low managerial staff to operate a limited service.

For the first time since the strike began, the riot police yesterday were carrying helmets and truncheons—as if to reinforce the Government's determination to get the railways working now that the holiday period is over. The riot police also chased the drivers from the tracks, abandoning the cautionary methods they adopted at the beginning of the strike to free blocked lines.

Jean-Claude (he declines to give his surname) has been working on the French railways (SNCF) for 20 years, 10 of those as a driver. He is not a union member, having left the Communist CGT after two years in 1988 because he found it too political.

He says the strike has cost him so far FF 5,000-6,000 (£828-934) in lost pay, or close to three-quarters of his monthly wage, and is beginning to jeopardise his credit payments and summer holiday plans. But he claims that his wife and two children (aged 17 and 19) still support him. "They have complete confidence in me," he says.

He never imagined that the conflict would last so long. "We thought it would be over quickly," he says, "with the management backing down over the new merit-related pay structure and some concession over working conditions."

He blames the deadlock on the political difficulties of Mr Jacques Chirac, the Prime Minister, who feels that he cannot be seen to give ground after retreating over the students' strike. He sees Mr Chirac as waiting to take a



Striking railway workers form a chain to block trains in Marseille

French unions have been no exception to the European picture of declining strength during a period of recession and rising unemployment, writes David Housego.

Their weakness has been shown during the present strike in which the pace has been set by the rank and file rather than the traditional leadership.

It is largely in the hope of regaining the initiative that the Communist-led Confédération Générale du Travail (CGT) has launched its call to broaden the conflict across the public sector. The CGT's membership has slipped from an estimated 2.5m in 1975 to about 1.1m.

The Communists' action is embarrassing

hard line, "like Mrs Thatcher." In the crowded drivers' room at the end of the passenger platform, Jean-Claude does not hesitate to express his fears that the CGT's call to widen the strike today to the rest of the public sector will damage the drivers' cause. "We fear that our protest will be drowned in other claims," as happened in 1985, he says.

Prior to the present dispute the three-week drivers' strike in 1985 was the longest in recent French rail history, but was buried under the broader conflicts of that year. Jean Claude

now accuses the CGT of wanting to "sabotage" the present strike.

Behind the drivers' militancy is a growing fear that Mr Chirac's Government is bent on clawing back some of the advantages the drivers have won over the years and on reducing jobs through cuts in the French rail network. Jean-Claude and his colleagues assert that the Government would like to phase out freight traffic over the next 10 years.

Their fears were aroused in the summer when Mr Jacques Domergue, the junior transport minister, called into question the railwaymen's "privileged" status and said that the SNCF must run at a profit.

Shortly after that, the SNCF circulated copies of its proposed new merit-related pay structure. Jean-Claude says that the definition of "merit" they got from officials was a readiness to accept a "modified working day"—in other words to accept more flexibility over working on Sundays or during normal rest periods.

Drivers talked among themselves about the new proposals and contacted their colleagues

in other depots. In November, a petition over the new structure and working conditions was signed by 75 per cent of drivers. The drivers wanted their official working day revised earlier and more Sundays off.

Strike action began to be planned on a non-union basis. Jean-Claude says that union-backed claims "never achieve anything" because the unions negotiate across the board for all employees with the SNCF management. The drivers had their own particular demands. On top of that "we are a power within the railways. If the drivers stop work, the trains don't go. That's it," he says.

He maintains that the CGT was against the strike the drivers finally launched on December 18, warning them that it was inappropriate before the holiday season.

They eventually got the official backing of the pro-Socialist CFTD union—unions are required by French law to serve advanced notice of a strike.

Jean-Claude maintains that pay issues were not part of the drivers' grievances. He is uncertain himself of the details of the 3.5 per cent pay award that the SNCF announced at the end of December—and which, reflected across the public sector, is one of the points at the centre of the CGT's strike action today.

The direct threat to the SNCF has undoubtedly been fuelled by recent reductions in the numerous bonuses that account for about a third of their pay—and which are at the root of widespread charges that they are a privileged minority. Jean-Claude, for instance, calculates that he received FF 9,500 in November 1986 as opposed to FF 10,400 in November 1985. FF 1,000, he says, he has had to pay higher social security contributions.

On the noticeboard in the depot in the Gare du Nord is a poster which spells out the drivers' motto in the strike: "firm, calm, the Gare du Nord has been tougher than most other depots with fewer trains operating from it yesterday than any other Paris station. It remains to be seen whether they are tough enough to win through what looks like this week's decisive confrontation."

It is looking to attract 35 Japanese companies to Ireland over a four year period, in particular in the automotive and aerospace components industries, pharmaceuticals and computer software.

On the home front, there is an encouraging 162m investment in small businesses in 1986, including 450 start-ups where development of international services such as computer software was especially strong.

Investment in mature domestic industry of £110m was disappointing, the IDA said, leading to fewer new jobs than in the small business sector.

In one policy change affecting major grant-aided projects, Mr White said the IDA was introducing a system of staging grant payments according to performance, rather than the "drawdown" system of releasing funds on failed projects.

Foreign investment booms in Ireland

By Hugh Carnegie in Dublin

Ireland's Industrial Development Authority attracted about 100 new foreign investment projects in 1986 which will lead to 15,700 new jobs, a 24 per cent improvement on 1985.

Mr Padraic White, managing director of the IDA, said yesterday that last year had proved one of the best since 1981 for the authority despite the background of a depressed domestic economy and increased competition for inward investment from other European countries.

The IDA negotiated more than 155,000 (£222m) in planned new investment over the year, more than a third to be contributed by the authority itself, up from 164,17m in 1985.

Major newcomers included the first Taiwanese company to invest in Ireland, the electronics manufacturer Taitung—and the first from South Korea, Saehan Media Corporation, the world's largest manufacturer of video-cassettes, is to build a 158m videotape operation in Sligo, north-west Ireland, said by the IDA to be the biggest Korean investment in Europe.

This year the authority, which has traditionally relied on the US for the bulk of inward investment, is to step up its efforts to attract investment from the Far East, establishing an office in Seoul and sending six extra staff to Tokyo.

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Soviet leaders step up efforts to end war in Afghanistan

BY PATRICK COCKBURN IN MOSCOW

THE Soviet Union yesterday stepped up its efforts to end the war in Afghanistan by sending Mr Eduard Shevardnadze, the Foreign Minister, and Mr Anatoly Dobrynin, the Communist Party secretary for international affairs to Kabul for talks just before the start of the Afghan Government's unilateral ceasefire.

The visit by the two most senior Soviet foreign policy makers so soon after Mr Najibullah, the Afghan Communist Party leader, had announced a six month ceasefire from January 15 indicates that Moscow is mounting a major diplomatic effort to break the deadlock in Afghanistan.

Tass, the Soviet news agency, said Mr Shevardnadze and Mr Dobrynin met Mr Najibullah for talks at Kabul airport but gave no details.

The Afghan Government, which is backed by about 115,000 Soviet troops in its 1986-87 war with anti-Communist guerrillas, announced on January 11 that it was declaring a ceasefire for six months from January 15.

Since Mr Mikhail Gorbachev became Soviet leader, Moscow has emphasised that it wants to withdraw its troops but has always insisted that "outside interference," by which it means support for anti-government guerrillas by Pakistan, Iran and the US must stop first. Some 8,000 Soviet troops were withdrawn in October as a symbol of Soviet intent.

The guerrillas have rejected a ceasefire until Soviet troops withdraw and have refused to recognise the Kabul Government.

Talks sponsored by the UN about the Afghanistan problem are to start in Geneva on February 11 and the Kabul offer will increase pressure on Pakistan.

maintain workers' purchasing power and no more.

The first two instalments of the pay rise, covering 65 per cent of the total, will be in this month's pay packets. This is because the previous contract was due for renewal from last January but negotiations never took place because of continuing wrangling between Government and unions over a mobile wage indexation system.

But the basic rate increase in respect of 1986 is being paid from this month without hedging—obviously at some saving to the public exchequer—because the unions do not return to work from the Christmas holidays until Wednesday, it was impossible yesterday to gauge the possible impact of the pay deal on the still-unresolved private sector negotiations.

One of the most important groups, engineering and textile workers, are due to resume talks at the end of this week. After several one-day strikes in the sector, the engineering negotiations are reportedly moving towards some sort of climate over union demands for average rises of around 1,000,000 a month and a 20-hour reduction in the working year.

The average civil service pay rise is substantially boosted by increases over the life of the new contract of 30-60 per cent for the highest grades.

Terrorist attacks decline to lowest level for years

BY OUR ROME CORRESPONDENT

ITALY SUFFERED fewer terrorist attacks last year than in the past 17 years, according to the Interior Ministry's annual report.

The steady decline is undoubtedly adding to Italy's sense of well-being. The report partly attributes the success to the country's ability to deploy effective modern methods against terrorist organisations.

The authorities recorded 30 terrorist attacks last year, one of which claimed the life of a former mayor of Florence. Responsibility was claimed by the Red Brigades, scourge of Italian society in the 1970s. They were partly responsible

for the peak of 2,513 incidents recorded in 1979. But it was the 1980-81 period, marked out by the grimy bomb attack on Bologna railway station the following year which cost 85 lives—the largest death toll from any terrorist action in Italy.

Between January 1986 and December 1986 there have been 10 terrorist attacks, costing 413 lives. Now, however, Italians are starting to believe that terrorism is no longer a constant danger. Nevertheless, they are also aware of the real possibility of a resurgence of violence against Italian targets being issued by various Lebanese groups.

Moscow visit for British Foreign Office minister

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

MR TIM RENTON, junior minister at the British Foreign Office, will pay an official visit to the Soviet Union from January 13 to 18 for talks on East-West relations, arms control and Afghanistan, as well as a number of bilateral problems.

Mr Renton's visit, the first by a British minister to the Soviet Union since July 1985, is seen by officials as part of the preparations for the planned official visit to Moscow by Mrs Margaret Thatcher, Prime Minister, at the end of March.

Mr Renton, who will be the guest of Mr Anatoly Kovalev, Soviet Deputy Foreign Minister, is expected to focus on prospects for both nuclear and conventional arms control in the aftermath of last October's Reykjavik summit between President Reagan of the US and Mr Mikhail Gorbachev, the Soviet leader.

Britain has led Washington's European allies in persuading the US to refine its post-Reykjavik nuclear arms negotiating stance to take account of European interests.

The official stance of the Nato allies' foreign ministers in Brussels last month, is still

Sweden to increase aid by 11%

By Sara Webb in Stockholm

THE SWEDISH Government plans to increase its foreign aid budget by 11 per cent in 1987-1988, with larger increases earmarked for the southern African front line states and the African National Congress.

The budget proposals come in the wake of criticism from Mr Bengt Westerberg, leader of the Liberal Party, over the continuing reluctance of the Prime Minister, Mr Ingvar Carlsson, to impose a trade boycott against South Africa.

The Government plans to give a total of SKr 8.8bn (£950m) in foreign aid in the year to June 30 1988, an increase of 11 per cent on the 1986-87 budget of SKr 8.8bn.

The aid budget amounts to 1 per cent of Sweden's GNP. About SKr 5bn is proposed as direct aid to developing countries, the ANC and Southern African front line states, with Tanzania, India, Vietnam and Mozambique as the chief beneficiaries, receiving SKr 300m-SKr 500m each.

The Southern African Development Co-ordination Conference (SADCC), representing the front line states, will receive SKr 250m, compared with SKr 200m in 1986-87.

The ANC stands to receive SKr 57m, compared with SKr 45m in 1986-87.

Swiss bank makes currency holdings loss

By John Wicks in Zurich

THE DECLINE in the dollar over the past year has left the Swiss National Bank with a book loss on its foreign-currency holdings of Sfr 3.7bn (£1,544m). The dollar fell from an average of Sfr 2.103 in December 1985, to Sfr 1.666 last month.

Valuation adjustments to the bank's unsecured foreign-currency reserves, together with a reduction of outstanding swap positions, led to a fall of some Sfr 4.6bn in the foreign-currency holdings.

At Sfr 36.3bn, there were markedly lower than end-of-year totals of Sfr 38.88bn for 1984 and Sfr 38.13bn for 1985. Gold holdings remained at Sfr 11.9bn—virtually unchanged since the early 1970s.

Part of the foreign currency book loss for 1986 can be covered by "foreign-exchange valuation adjustment." However, this had already been reduced from over Sfr 5.1bn to some Sfr 1.5bn for 1985.

The remaining Sfr 2.1bn will be allowed for in the central bank's profit-and-loss account and covered by the freeing of a large part of the provisions for foreign-exchange risks. These had amounted to some Sfr 2.65bn at the end of 1985.

French ports re-open as seamen end strike

BY GEORGE GRAHAM IN PARIS

FRENCH SEAMEN began to return to work yesterday after the accord reached with the Government at the weekend.

That agreement, signed by trade unions and by Mr Ambroise Guellac, Secretary of State for the Sea, brought an end to a 36-day strike which had paralysed many French ports and halted ferries between Corsica and the mainland.

The Government made concessions on social security coverage for seamen who are sick or injured during work accidents and promised that the revision of the maritime labour

code would not take place before 1988.

In addition, Mr Guellac agreed to freeze all applications for ships wanting to register under the flag of the Kerguelen islands, a French dependency in the southern Indian Ocean.

The Kerguelen islands, better known for the giant seaweed which wraps their coastline and which has brought many a mariner to grief, had become an emotional issue in the court since 1982. Guellac's plan is to allow up to 30 French bulk carriers to register under the Kerguelen flag. This would

permit them to hire up to 75 per cent of their crew outside France and would thus reduce their labour costs.

The French national ship-owners' council estimates the daily labour cost of a 250,000-tonne ship with an all-French crew at \$5,300-\$5,400 a day, compared with \$3,200 a day under the Terres Australes et Antarctiques Françaises or Kerguelen registration, and \$3,000 for a crew entirely recruited outside France.

The agreement signed by Mr Guellac will allow the 19 bulk carriers that had applied before

December 22 to acquire the Kerguelen registration but freeze all subsequent applications until the Council of State, the independent judicial institution, has decided on the question.

Work had restarted in most ports yesterday, although some difficulties were being experienced with tug services. Although Sealink car ferry seamen had voted to return to work, striking railwaymen yesterday blocked ramps at Dieppe, preventing the loading of cars and lorries bound for Newhaven.

DM 15bn cut will not make a noticeable difference to most West Germans whether the second phase is introduced this year or next. That makes it all the more urgent, politically, that the promised "grand reform" for the nineties be planned, insofar as it exists in any concrete form, is to radically reform, or streamline, West German taxes, to abandon tax bands for a linear system where tax paid would be in direct proportion to income, and to offer real cuts of what Mr Stoltenberg calls "DM 20bn plus X."

Another way of putting that would be "DM 40bn minus X" because, in addition to the cuts, the part that counts is the part that counts.

Stoltenberg plans to make the entire DM 40bn or so package have to be at least partly financed by big cuts in subsidies and probably new increases in taxes on fuel, cigarettes and alcohol.

Corporate tax would be cut from 55 per cent at the top to 50 per cent or less. The highest income tax levels would come down too, though probably remain just higher than corporate tax.

Cynics say that the funds to finance this cannot be found and no careful bookmaker would give Mr Stoltenberg very good odds. Not only does he have to win agreement to forge substantial tax income from each of the country's 11 Länder, including the big Social Democrat-run ones which oppose him, but he also has to take at least

DM 10bn out of Bonn's subsidy basket as part of financing

So far, state subsidies have grown under this Government, despite its earnest promises at the start to cut them. If, as is now being forecast, economic growth slows in the next few years, industry's demands for more aid will inevitably grow. But about half of West German subsidies are tax breaks and the Finance Ministry is concentrating on these, arguing that their removal will also go a long way towards simplifying the entire system.

The Leander may be tougher to crack. Mr Stoltenberg has to convince them to share with Bonn at least DM 20bn of the package. That part that counts is the part that counts.

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Bonn's Finance Minister is facing a major political challenge, writes Peter Bruce**Tax cut promises haunt Stoltenberg**

AS IT turns out, Mr Gerhard Stoltenberg, West Germany's Finance Minister, need never have promised DM 40bn (£4.6bn) tax reform in order to win this month's general election.

The ruling coalition to which he belongs appears to be coasting to victory against weak and divided opponents.

But he did make the promise and, as luck would have it, President Ronald Reagan signed into law a sweeping revision of the US tax system soon after the election.

Stoltenberg had time to think, an almost frenzied (for West Germany) tax debate had sprung up around him.

Where he had begun by talking airily of financing the reform by "cutting the country's chronic DM 120bn annual state subsidy bill, he now began to be pressed for detail he did not have.

Challenged to follow the US example, he and other ministers made admiring noises but grumbled about a few fixed income tax rates being unfair, and pounced, relieved upon the heavier tax burden US corporations now carry as something "unsuitable" for West Germany.

However, the pressure will not go away. West Germans, many of whom remember owning piles of worthless money, have a deep hatred of tax, and a robust interest in avoiding it. One of West Germany's all-time best-selling books is a garish yellow 700-page paper-back called 1,000 Completely

Legal Tax Fiddles, nearly 1.3m copies of which have been sold since 1983.

Tax consulting flourishes and, not surprisingly, the Government has come to regard a simplification of the tax system as important as cutting taxes. The 30,000 or so West Germans qualified to give tax advice are said to outnumber the nation's highly paid dentists.

They have their work cut out. There are 41 taxes payable in West Germany, to which 120 tax laws and 178 decrees apply. West Germany's count of 29 "quasi taxes" and an unquantifiable number of levies.

It has become fashionable for politicians to be tax reformers. The Government is going into the election in the middle of a two-phase DM 19bn tax "reform"—in reality it is just a cut—and even Mr Johannes Rau, the opposition Social Democrat (SPD) chancellor candidate, has jumped on the bandwagon with a promise to reform the reform by taking more people out of the lowest tax threshold.

But hardly anyone is listening to Mr Rau. Mr Stoltenberg, on the other hand, faces probably the biggest political challenge of his life.

His enemy is time. Even now he is constantly called in from abroad, and by the Free Democrats from inside the coalition, to hurry up the current reform. It started in 1986 with cuts worth about DM 9bn and he is under great pressure to bring forward the remaining

DM 15bn cut will not make a noticeable difference to most West Germans whether the second phase is introduced this year or next. That makes it all the more urgent, politically, that the promised "grand reform" for the nineties be planned, insofar as it exists in any concrete form, is to radically reform, or streamline, West German taxes, to abandon tax bands for a linear system where tax paid would be in direct proportion to income, and to offer real cuts of what Mr Stoltenberg calls "DM 20bn plus X."

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OVERSEAS NEWS

Tamil leader hits at government 'siege tactics'

BY MERVYN DE SILVA IN COLOMBO

THE Sri Lankan Government is trying to create a "Biafra-like siege situation" in the Jaffna peninsula, Major Kittu, the regional commander of the Tamil Liberation Tigers (LTTE), charged yesterday. He was commenting on the Government's decision to stop all fuel supplies to the peninsula, the separatist stronghold.

The army, which is manning all points of entry and exit, has been ordered to stop all vehicles transporting petrol or kerosene. Supplies of aluminium have also been stopped to prevent the manufacture of arms in the north. They are trying to choke us," said Major Kittu. He also pointed out that the restrictions had crippled the fishing industry.

The Government argues that there is enough fuel to last several weeks and its decision is a warning to the "Tigers", who are in effective control of the north and last week threatened to declare unilateral independence.

The UDI decision was not implemented because of pressure from the Indian Government, diplomats said. Though India's mediation efforts have been stalled, India considers such a step a serious diplomatic embarrassment.

Disturbed by what it regards as a big military build-up in the north, India has warned Sri Lanka about the "unpredictable consequences" of a major military offensive. For the first time, India has noted the growing role of Pakistani and Israeli security advisers in Sri Lanka, and spoken of a threat to "Indian security interests, national and regional."

Mr Lalith Athulathmudali, the National Security Minister, said yesterday that if the Government wanted to choke the north, it would cut off food and electricity supplies. He maintained that the formal declaration of independence had only been postponed while step by step the Tigers were setting up a parallel civil administration with powers to supervise trade and transport.

"Make no mistake, the LTTE is setting up a governmental structure, however skeletal," he said.

The hardening of the Govern-

The mass resignation over a salary dispute of 50 university deans, 300 heads of departments and all wardens, sub-wardens and student counsellors will make it impossible for seven of Sri Lanka's eight campuses to open next week for the new academic year.

Several vice-chancellors told the University Grants Commission yesterday that they were indefinitely postponing degree examinations, and asked students to residential campuses to vacate their rooms. The only exception is the University of Jaffna in the troubled Tamil northern province.

ment's stance follows its failure to hold direct talks with the LTTE. The Indian Government interprets the failure as a manoeuvre to end Indian mediation after an Indian negotiating team which visited Colombo for three days of talks with President Junius Jayewardene in November demanded too many concessions from the Sri Lankan Government.

The most controversial of these concessions, over which there has been a war of words between the Indian High Commission in Colombo and the Sri Lankan press, was a redrawing of the boundaries of the racially mixed eastern province.

Such a redrawing would have led to the exclusion of majority Sinhalese areas from the eastern province, allowing a "linkage" between the Tamil north and Tamil-speaking districts of the east.

The LTTE has wiped out all other rival groups in the north and has demanded recognition as "the sole representative of the Tamil people." But it has resisted the temptation of accepting the Government's carrot of informal recognition. It has laid down conditions for fresh negotiations. These include a withdrawal of the Prevention of Terrorism Act, the release of 3,000 Tamil youths detained under the act, and the removal of restrictions on fishing and fuel supplies. The Government cannot accept such terms.

Libyan raid on Chad played down by France

By Paul Betts in Paris

FRANCE PLANS no immediate retaliation against the Libyan bombing raid in southern Chad on Sunday and is seeking to prevent an intensification of the conflict in central Africa.

France was studying yesterday "an appropriate response" to the Libyan raid, according to government sources. Earlier, Mr. Alain Juppé, the French Budget Minister and official government spokesman, had said that France planned to take "in coping hours the appropriate measures."

The Libyan action was expected to draw reprisals from France. Four Libyan MIG-23s had struck targets south of the 16th parallel, where France has established a defence system to support the Chad Government. France has always warned that any Libyan incursion south of the 16th parallel would prompt an automatic response.

However, the French authorities appeared to be seeking to play down the incident yesterday, suggesting that the Libyan raid could simply represent Libyan retaliation against the capture by Chadian troops of a Libyan garrison.

They also suggested that it did not necessarily imply that Tripoli was deliberately seeking to provoke France by violating the 16th parallel. None the less, the Libyan raid and the latest developments in Chad—with the government of President Hissane Habré seeking to pursue his offensive to recapture the northern part of the country from Libyan control—are causing a new diplomatic and defence headache for the French Government.

Col. Muammer Gaddafi, Libya's leader, said in an interview published yesterday that the fighting in Chad was among Chadians, but that "a few hundred" Libyan troops were in the country, trying to free a handful of captured Libyan technicians.

The French Foreign Ministry confirmed yesterday that France had decided to suspend for an indefinite period all official visits between France and Australia. The decision follows what Paris regards as "the unfriendly attitude of Australia" towards France, especially over New Caledonia. The French Government has accused Australia of leading a campaign against French policies in the Pacific region.

Peter Blackburn reports on Togo's economic struggle as its leader completes 20 years in power

Togo follows path of 'Supreme Guide'

IN THE MIDDLE of Lomé a larger-than-life golden statue shows Gen. Gnassingbé Eyadema, President of the small West African state of Togo, pointing the way forward.

The statue stands outside the imposing headquarters of the country's sole political party, the Assembly of the Togolese People, whose Congress is considering the renewal of diplomatic relations with Israel after a 13-year break.

Togo would become the first black African state after Zaire, Liberia, Côte d'Ivoire and the Cameroon to resume ties.

Along with other black African states it broke relations in solidarity with Egypt following the 1973 Middle East war.

Gen. Eyadema said in a recent interview with Radio France Internationale that only the party congress was competent to take such a decision. But he added that he saw no obstacle now that Egypt had resumed relations.

For nearly 20 years the Togolese people have been following the path chosen by Gen. Eyadema, the "Supreme Guide." He was recently re-elected with an overwhelming majority.

Since he miraculously survived a plane crash 12 years ago a powerful personality cult has grown around the Togolese leader. A monument built at the scene of the accident at Sarakawa in northern Togo has become a national shrine.

Gen. Eyadema's aura of invincibility will be enhanced by sumptuous celebrations planned for Tuesday to mark the 20th anniversary of the military coup in which he seized power.

The Togolese people will be hoping that the "architect of new Togo" will ease the austerity imposed in recent years.

They will be looking for an end to the wages freeze as well as guarantees that jobs in the public sector will not be sacrificed to the privatisation drive.

The Government, mindful of its international image in the run-up to the 20th anniversary, last year decided against a further rescheduling of its external debt.

But the decision diverted resources from productive investment to debt servicing which still absorbs nearly 50 per cent of export earnings.

Economic growth will as a result fall below 2 per cent in 1986 from 3 per cent the previous year, economists forecast.

With a population of only 2.9m and public external debt of about 283.7m CFA francs (\$800m) the Togolese are among the world's most heavily indebted people in per capita terms.

The country's debt crisis arose after the Government went on a spending spree following the quadrupling in 1974 of the world price of phosphate, the country's main export.

Many of the investments in state industrial enterprises, public buildings and luxury hotels proved unprofitable and when the world phosphate market collapsed Togo was obliged in 1979 to seek IMF assistance and reschedule its official debt with the Paris Club.

Since then the Government has implemented a series of IMF- and World Bank-inspired economic reforms. These included the closure of eight loss-making public enterprises and privatisation of 21 others in one of Africa's most far-reaching privatisation programmes.

The reforms combined with good harvests helped to reverse the economic decline in 1983, bankers say. Togo recently received a further mark of approval when the World Bank released the second tranche of a \$38m structural adjustment loan.

This came after the Government met certain conditions, including a further increase in cocoa and coffee

prices, an external audit of the commodity marketing board and closure of an unprofitable railway line.

Despite the reforms, Togo faces a difficult economic future. The world phosphate market remains depressed and Togo's important regional transit trade has been disrupted by the closure of the Ghanaian border while recent financial reforms have further depressed the Nigerian market.

In addition, last September's coup attempt by Ghanaian-based Togolese dissidents will not have encouraged the tourist industry.

However, political stability was quickly restored and foreign business confidence apparently remains unshaken.

Gen. Eyadema's statue emerged unscathed from the recent coup attempt but it could still be threatened by underlying social tensions. After 20 years, some Togolese may wonder if Gen. Eyadema has shown the best way forward.

Assam students complete first year of government

THE WORLD'S first student government has done little to fulfil its election pledge to expel millions of Bengali immigrants from Assam state in north-east India, is still trying to central government signed a peace accord in August, 1985, ending six years of agitation by militant Assamese who want Bengali immigrant settlers to be stripped of their voting rights and deported. At least 3,000 people died in anti-immigrant riots during that period.

But critics say its achievements are largely national and that the party has done little to fulfil its election pledge to expel millions of Bengali immigrants from Assam state in north-east India, is still trying to central government signed a peace accord in August, 1985, ending six years of agitation by militant Assamese who want Bengali immigrant settlers to be stripped of their voting rights and deported. At least 3,000 people died in anti-immigrant riots during that period.

The Assam Peoples' Front (APF) Government marked its first anniversary on December 24 with rallies and exhibitions.

But critics say its achievements are largely national and that the party has done little to fulfil its election pledge to expel millions of Bengali immigrants from Assam state in north-east India, is still trying to central government signed a peace accord in August, 1985, ending six years of agitation by militant Assamese who want Bengali immigrant settlers to be stripped of their voting rights and deported. At least 3,000 people died in anti-immigrant riots during that period.

most important political initiative by Mr Rajiv Gandhi, Prime Minister, after the Punjab settlement.

The All Assam Students' Union (AASU) and the People's Struggle Front, which led the anti-immigrant campaign, formed the APF only two months before last year's elections. It defeated Mr Gandhi's ruling Congress (I) Party to take power in a state best known abroad for its tea but vital to India for its oil reserves.

Mr Prafulla Kumar Mahanta, 30,

a law student, left the classrooms of Gauhati University to take the Chief Minister's chair. Other AASU leaders became ministers.

The press dubbed the APF "the beehive party" because 52 of its 71 legislators were single when they came to power.

But that is rapidly changing. The ministers of forests, health, industries, transport and home all got married this year to young women

they had met at university. Mr Mahanta himself will follow suit next month.

Weddings apart, the APF has had little to celebrate. Its first year in power has been marked by natural disasters, including epidemics of malaria and viral encephalitis that claimed more than 600 lives.

A severe drought followed by unseasonal floods caused damage estimated at more than Rs 7bn (\$500m).

Indonesian budget set to raise spending slightly

BY JOHN MURRAY BROWN IN JAKARTA

PRESIDENT SUHARTO of Indonesia is expected to announce a slight increase in Government spending when he presents his draft 1987-88 budget to parliament today.

This compares with a 7 per cent cut last year and reflects a concern to ease Indonesia's economic downturn ahead of April's national elections.

However, with inflation at 8 per cent, the budget marks a further decline in real terms.

Development spending, which was cut by 23 per cent last year, is set to decline further as the country adjusts to falling earnings from oil and gas and sluggish world demand for its

King Fahd to pay state visit to Britain

KING FAHD of Saudi Arabia will pay a four-day state visit to Britain from March 24, his first since he assumed power in June 1982, Reuter reports from Riyadh.

A court announcement yesterday said the visit was at the invitation of Queen Elizabeth. The Queen and Prince Philip visited Saudi Arabia in February 1979.

Arab diplomats in the region said they believed the Saudi monarch's talks in Britain would centre on the Middle East crisis and the Iran-Iraq war, and the role London could play in resolving the two conflicts.

Manila unionists protest at sacking of minister

BY RICHARD GOURLAY IN MANILA

THOUSANDS of left-wing trade unionists picketed the Philippines' Labour Ministry and then marched to the seat of President Corason Aquino's Government yesterday to protest at the sacking of Mr Augusto Sanchez as Labour Minister.

Riot police equipped with water cannon prevented the militant Kilusang Mayo Uno (May 1 Movement) from marching directly to Malacanang Palace to protest. There was no violence.

The new minister, Mr Franklin Drilon, a former management lawyer and vice-

president of the Employers' Confederation of the Philippines, was appointed Deputy Labour Minister last September in an effort to balance what many businessmen saw as Mr Sanchez's excessive pro-labour bias.

The Employers' Confederation and the moderate Trade Union Conference of the Philippines, warmly welcomed the appointment and expressed hopes that it would lead to a much-needed period of industrial peace.

Working days lost through strikes rose sharply last year, while Mr Sanchez was minister.

August 20, 1986: a turning point in aviation history.



That was the day a Boeing flew over the Mojave Desert USA. Nothing unusual maybe, except that it was powered by a revolutionary unducted fan engine.

An engine that will be fitted on Boeing's new 777. The aircraft that will replace the 727s, DC9s, and early 737s currently in service. It will fly as high and cruise as fast as today's jets, but consume far less fuel. This

will mean the airliner will have operating costs which are 8% to 10% lower than jets entering service later this decade.

It's destined for a brilliant future and Short Brothers in the UK are sharing in the development programme. Everything's going to plan for production to start in 1988 and for the aircraft to enter service in 1992.

But then what else would you expect from Boeing and its partners?

BOEING
Getting people together.

AMERICAN NEWS

Lionel Barber in Washington outlines the US President's \$1.0243 trillion budget

Reagan's precarious balancing act

PRESIDENT Reagan's new trillion-dollar budget, presented to Congress yesterday, included spending cuts in agriculture, transportation and education but also calls for increases in defence spending, foreign aid and space programmes.

Mr Reagan's aim is to strike a balance between the need to reduce the budget deficit—which ran to a record \$220.7bn in fiscal year 1986—and the desire to provide more money for high priority areas such as defence.

According to the budget's calculations, the deficit will be cut to \$107.8bn in fiscal year 1988, which starts on October 1. This is just below the target set by the Gramm-Rudman-Hollings law and assumes real GNP growth of 3.2 per cent in calendar year 1987 (compared to 2.7 per cent in 1986) with inflation expected to return to between 3 and 4 per cent.

In his budget message to Congress, calling for an overall cut of \$1.0243 trillion (million million) in fiscal year 1988, Mr Reagan calls the budget deficit "a major threat to our future prosperity" and sets out proposals to cut federal spending

(many of which were rejected by Congress last year).

DEFENCE: Mr Reagan wants real growth in military spending to rise by 3 per cent annually over the next five years. Mr Weinberger has already proposed a \$2.8bn supplemental appropriation for 1988, including an extra \$350m for Star Wars research.

Mr Reagan says the amount of defence spending authorised by Congress in 1986 and 1987 declined in real terms. That included a 30 per cent cut in funding for Star Wars.

Promising tougher competition for defence contracts, Mr Reagan says the defence budget is the minimum necessary to maintain national security. He also calls for a two-year defence budget to help programme planning.

PRIVATISATION: Using language strikingly similar to Mrs Thatcher's, President Reagan says he wants to get the federal government out of the job of producing and selling services and let the private sector take over.

Mr Reagan suggests ending all subsidies to Amtrak, the passenger train service running mainly along the

SHORT RANGE ECONOMIC FORECASTS*

	'85	'86	'87	'88
GNP (nominal)	4.3	5.4	6.9	7.3
GNP (real)	2.9	2.7	3.2	3.7
Consumer prices	3.3	0.9	3.8	3.6
Unemployment	6.9	6.9	6.5	6.2
Interest rates (91-day treas. bills)	7.5	6.0	5.4	5.6

* Percentage changes (fourth quarter to fourth quarter), except unemployment and interest rates. † Actual.

Boston-Washington corridor and selling off its assets that would generate around \$1bn in 1988, partially repaying more than \$12bn already paid in subsidies.

Other suggested disposals include two oil fields operated by the Government: Elk Hills, California and Teapot Dome, Wyoming (better known as a financial scandal in the 1920s), and auctioning off radio and cellular radio wave space, electric power marketing organisations and excess real estate. The

total sell-off would bring in at least \$5bn in 1988.

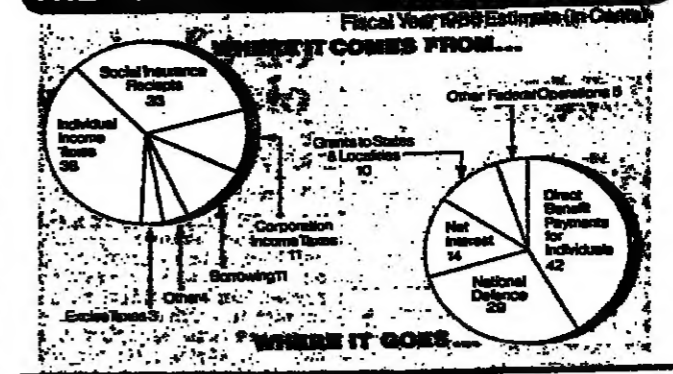
FARM AIDS: The cost of supporting America's farmers has risen sixfold from \$4bn in 1981 to \$25.8bn in 1986, the budget says. That amounts to a direct payment of more than \$16,000 to each of the 1.6m farm families. And yet, in 1985, two-thirds of American farmers did not receive price supports.

The Administration is proposing a new farm plan aimed at removing the incentive for farmers to overproduce, limit to \$50,000 (instead of the present \$250,000) the amount each farmer may receive and reduce target prices by 10 per cent a year to cut surplus production. If this is achieved, Mr Reagan believes he can achieve savings of \$24bn between 1988 and 1992, cutting farm aid to around \$2bn.

Entitlements: Americans spend more per capita on their health than anyone in the industrialised world—52 per cent more than in West Germany and 100 per cent more than in Japan, the budget document says. Hence, Mr Reagan wants to cut medical entitlements, notably Medicare and Medicaid. AIDS research and education is expected to rise 28 per cent to \$11.8bn.

Under the proposals, Medicare premiums are to be increased by 35 per cent of supplementary medical insurance costs of new enrollees, plus cuts on Medicare rewards to hospitals to build (unwanted) beds. Including cuts in Medicaid spending and veterans entitlements, Mr Reagan estimates saving taxpayers \$7.2bn in 1988 and \$65.5bn in the period 1988 through 1992. Foreign aid: Mr Reagan wants more money to spend helping allies, states threatened by communist insurgents, or countries in need of humanitarian aid. He has asked for budget authority of \$19.1bn in 1988, \$1bn above the 1987 level (including a supplemental appropriation of \$1.5bn in 1987).

THE FEDERAL GOVERNMENT DOLLAR



PRESIDENT'S 1988 BUDGET (\$bn)

	1986	1987	1988	1989	1990	1991
Totals						
Receipts	769.1	842.4	916.6	976.2	1,048.3	1,123.2
Outlays	989.2	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4
Deficit or surplus	-220.7	-173.2	-107.8	-92.8	-59.5	-21.3
Gramm-Rudman-Hollings targets	-171.9	-144.0	-108.0	-72.0	-36.0	0.0
Year-to-year changes						
Receipts	35.8	73.3	74.2	59.6	72.1	74.9
Outlays	42.5	25.8	8.8	44.6	36.8	36.4
Deficit	-8.5	+47.5	+48.4	+15.0	+33.3	+36.2

Source: Office of Management and Budget

US space station review may impede foreign role

By Peter Marsh

A US Government committee has begun work on a review of the country's project for a manned space station. The move could impede the planned involvement of Western Europe, Japan and Canada in the development of the base, which is due to enter orbit in the mid 1990s at a cost of about \$12bn (\$8.1bn).

The committee, a State Department official said yesterday, will consider a number of issues concerning the station, including possible use of the structure by the Defence Department. Other US agencies to be involved in the review, which is due to take until the end of this month, include the National Aeronautics and Space Administration.

As a result of the committee's work, negotiations between the US and the other countries due to become involved with the station have been postponed by a month. The talks have already been delayed as a result of arguments about the nature of the station's contribution to the structure.

The State Department said it still hoped to finalise discussions with the other nations over the station by the spring, as planned. This would permit full-scale development of the structure, which is due to house laboratories for experiments in

areas such as low gravity materials processing, to start by the end of this year.

The 13-nation European Space Agency (ESA) which co-ordinates Western Europe's extraterrestrial activities, said yesterday it was awaiting clarification from the US on the impact of the postponement. "We would like to know the details of the US position," the ESA said.

The US review of plans for the station could be a precursor to closer involvement in the orbiting base by the Defence Department. Hitherto, it had always been assumed that the Pentagon would be a user of the station, for scientific experiments, but would not play a part in managing the base.

Any move by the US military authorities to play a key role in organising activities on the station, possibly in conjunction with the Strategic Defence Initiative, is likely to be greeted with suspicion by the foreign nations.

In particular, Switzerland and Sweden, neutralist countries in ESA, might complain about overt military use of the base.

According to tentative estimates for the station, the US is due to put up \$8bn in development costs.

Reagan has second operation in two days

By Nancy Dunne in Washington

PRESIDENT Reagan underwent a second operation yesterday, shortly before the White House announced that four small polyps removed from the President's colon on Sunday were benign.

The President was fully conscious during yesterday's operation as doctors from Minnesota's Mayo Clinic cut away pieces of his enlarged prostate. The tissue was tested for malignancy, but doctors, who are expected to announce the results today, say the chance of finding cancer is only about 10 per cent.

Yesterday's procedure, called a transurethral resection of the prostate, is a common one. The President, who has a history of prostate problems, had the surgery "a breeze".

It is just 18 months since the President underwent major cancer surgery for the removal of a tumour in his prostate. Doctors then gave the President a better than 50 per cent chance for recovery.

Throughout his presidency, Mr Reagan has made frequent trips to the hospital for various causes, including a sinus operation in 1985. Doctors have consistently praised the President's resiliency.

Language tensions in Quebec have eased, Robert Gibbens reports

Montreal wins time to cool off

TENSION between the French- and English-speaking communities in Quebec has eased since just before Christmas when the Canadian province appeared to be in danger of relapsing into the language battles of the 1970s. But action by the liberal provincial government of Mr Robert Bourassa appears to have defused the tension successfully.

Montreal, always the focal point of language conflict because, unlike the rest of Quebec, it has a substantial English-speaking community, has been quiet since the beginning of January. No less important, the provincial government has succeeded in settling wage claims lodged on behalf of 200,000 public service employees in Quebec. It is to be expected that a settlement will soon be reached with the remaining 100,000.

Quebec public service unions have a reputation both for militancy and for overbidding actions, to prevent people using their own language in addition to French on commercial and other public signs.

That seemed to strike at the heart of Bill 101, the French Language Charter signed into law in 1977 by the Parti Quebecois government of Mr René Lévesque. Suddenly, separatists and nationalists of



Bourassa avoided conflict with unions

Canadian constitution of 1982 and the Quebec Bill of Rights, to prevent people using their own language in addition to French on commercial and other public signs.

That seemed to strike at the heart of Bill 101, the French Language Charter signed into law in 1977 by the Parti Quebecois government of Mr René Lévesque. Suddenly, separatists and nationalists of

every hue had the issue they had been waiting for and could accuse Mr Bourassa of trying to impose bilingualism on the province as a sop to Les Anglais.

In Montreal, two Molotov cocktails were thrown through the windows of a department store chain displaying bilingual signs. Bomb threats were received by several central stores bearing English names. Responsibility has been claimed by several cells of the Front de libération du Québec, the small terrorist organisation that organised the kidnapping of a British diplomat, Mr James Cross, in 1970.

The police, however, are sceptical and assign responsibility to vandals or a lunatic fringe exploiting the legitimate concerns of those who believe the French language must be defended in Quebec if it is to survive, especially in multi-lingual Montreal.

Mr Bourassa and his Quebec Liberal Party failed to find a solution to growing language tensions when in power from 1970 to 1978, and the Parti Quebecois narrowly won the 1976 election on a promise to ensure full protection for the French language by law. In practice, Bill 101 was an instrument to encourage francophones

to assume full economic leadership in the province.

It was easy for Mr Lévesque to claim Bill 101 had peacefully settled the language issue, because his government had the full support of nationalists and the unions. In the eight years of PQ rule, Montreal did largely assume a fully-French face, but the PQ tumbled the issues of independence and economic growth and the Liberals won an overwhelming victory in December, 1983. They are committed to easing some clauses of Bill 101 and to allow bilingual signs, especially in areas where substantial English-speaking communities exist.

Mr Bourassa could have amended Bill 101 swiftly with his large national assembly majority, but chose to await the appeal court decision on two test cases. He had to wait a year for the Appeal Court to find that languages other than French might be used in public signs, though Quebec has the right to insist on French in areas where substantial English-speaking communities exist.

He has another two months to decide whether to test the decision in the Supreme Court in Ottawa, thus delaying the changes to Bill 101 that the Appeal Court decision would require. Doing so would allow a public opinion to cool down.

WORLD TRADE NEWS

Iran deal tests Bonn arms curbs

By David Marsh in Bonn

A NEW test for the West German Government's policy of proscribing arms exports to areas of conflict may arise as a result of efforts by Messerschmitt Boelkow Blohm (MBB), the country's largest aerospace group, to sell military transport aircraft to Iran.

MBB has confirmed it had been holding talks over the past 18 months about selling 12 Transall aircraft, produced jointly by West Germany and France, for Iran's armed forces.

Both MBB and the Bonn Government say there is no question of delivering any aircraft while the long-running Gulf war with Iraq lasts. However the persistence with which MBB has been putting its proposals to Tehran underlines how West German companies are making a greater effort than in the past to compete in international arms sales.

Mr Hans Arndt Vogels, the MBB chairman, accompanied Mr Franz Josef Strauss, the Prime Minister of Bavaria, on a recent visit to Saudi Arabia designed partly to promote weapons sales to the desert kingdom. Mr Vogels has made no secret of his support for Mr Strauss's bid to liberalise Bonn's current restrictions on weapons exports.

Cigars are not the only attraction Havana can offer trade missions, Frank Gray reports

British business finds Cuba a tempting prospect

CUBA MAY be undergoing its worst economic difficulties since the revolution of 1959, but this is not deterring an exceptional number of British businessmen from pursuing export contracts in the only Communist country in the western hemisphere.

Officials from the London Chamber of Commerce, which recently led a mission of 30 UK companies to Cuba, admits that the interest is virtually without precedent. The mission was the second by the London Chamber in 18 months. A group of some 20 companies in the spring of 1985 acted as a catalyst for increased bilateral trade with Cuban state trading organisations.

The Birmingham Chamber followed with a similar mission last autumn and the Midland Bank, in association with the Goodwood Trading Company, followed with its own mission of some 40 UK companies last spring. The Manchester Chamber led a mission in November.

It is estimated that more than 100 British companies have visited Cuba under the umbrella of trade missions in recent years. This interest is taking place against Cuba's continuing debt difficulties. It has been largely in the context of negotiations with European banks, led by Credit Lyonnais of France, under the aegis of

\$500m in additional credits, but the Club is prepared only to offer \$50m because of what it regards as fuzzy accounting details by the Caribbean nation.

The Cubans argue that a rollover of their debt by Western commercial banks will not really help them resolve their need for new funds with which to buy Western equipment and augment their admittedly narrow trade base with Western economies.

While the Cuban central bank is pledged to boost such trade, the country remains dependent on bilateral trade with Comecon and is heavily reliant on barter arrangements involving Cuban sugar in exchange for Soviet oil. About 85 per cent of Cuba's trade is tied up with Comecon, with the remainder supporting trade with such countries as the UK, Japan, France, Italy, Spain and Canada.

One factor stimulating British trade interest is the attraction of doing business in America's back garden without having to compete with US companies, forbidden from doing business with Cuba by Washington's long trade embargo.

Underpinning British activity is a reciprocal trade agreement signed earlier this year between Goodwood and Midland Bank, acting as its financial adviser, which envisages some \$350m in this way.

The Cuban economy is entering what President Fidel Castro has described as The Year of the Third Crisis, agencies report from Havana. Austerity measures would mean a doubling in public transport prices to 10 cents from 5 cents, increases of about 40 per cent in electricity rates and restrictions in

use of government vehicles. The country's foreign exchange earnings are expected to decline to \$600m from \$1.2m in 1986, largely because of the sustained fall in sugar prices, the effects of an intense drought, and the fall in the price of petroleum and in the value of the US dollar.

bilateral trade to be spread over a five year period. The object is for Goodwood to handle about \$200m in Cuban imports, much of which will be shipped to third markets, over the term of the deal. Goodwood, and a Cuban export trading company set up to facilitate the arrangement, would also handle some \$100m in shipments to Cuba. These would come mainly but not exclusively from the UK.

The London Chamber says many mission members appear undaunted by tight Western credit restrictions and payment delays and are keen to help Cuba upgrade its industries. This is not easy, as it means exporters must patiently negotiate with Cuban trading organisations based in London, Paris, Vienna and Madrid.

Contracts for shipments to Cuba are usually processed in this way.

About 100 in potential business inquiries resulted from the London Chamber mission, which is optimistic that much of this will result in real business given a revamping of the current Cuban five-year plan which will set out an action plan to boost the country's trading potential with hard currency nations.

Proposals being considered include: ● Costalins, the contracting group, to employ Cuban technicians and labour in third-country projects; ● Backco Power to generate about 70 MW of power by recycling waste heat from generating stations. Energy conservation is a cornerstone to Cuban economic planning as Cuba is allowed to sell up to 66 per cent of its surplus Soviet oil on Western markets. This brought it \$374m in hard hard currency last year, but it had to be transhipped to

this resource is under pressure because of the fall in the price of oil.

Scandura to provide conveyor belt for the tobacco industry.

Layland Vehicles is anxious to revive business ties with the Cubans, not only for the provision of trucks but of coaches. The latter would support the country's fast-growing tourism industry.

British Shipbuilders is also delivering two SD-14 general cargo vessels to Cuba under a lease arrangement with Oldendorf, a West German shipping concern.

Cuban authorities, severely pinched by the financial impact of a bad hurricane season and the loss of hard currency oil earnings, have been slow to lift goods from the UK. They reaffirmed their commitment to a reciprocal trade agreement in December and have identified a dozen contracts that would help build up their imports from the UK. They hope to reach a figure of \$10m in liftings from the UK by the end of March.

Meanwhile, they are expected to fulfil easily their export share of the arrangement. Recent transactions involving Shell and British Petroleum call for the lifting of some \$20-\$30m in Cuban crude and a UK commodity trader, has taken \$2.5m steel to be transhipped to

Egypt. The UK also is to import Cuban citrus fruits, some to be sold through Marks and Spencer's retail outlets. Citrus fruit has surpassed tobacco as Cuba's third largest indigenous export, behind sugar and minerals, mainly nickel.

A Cuban plan to build an EEC-standard abattoir that could lead to production of 5,000 tonnes of rabbit meat in 18 months is also at an advanced stage. Production would eventually be increased to a target level of 10,000 tonnes per year and will help offset a downturn in frozen Chinese rabbit meat imports into the UK.

A high potential project is the processing and bottling of Cuban rum by Invergordon Distilleries for sale in the UK and abroad. The only sticking point is on whether the Cuban authorities representing Havana Club, the national rum company, can be persuaded to boost their development investments beyond 50 per cent.

In terms of visible trade, Britain is enjoying a large surplus, with exports of \$48m to October, against imports of just \$3m, though this will change once the Goodwood results begin to be registered. British exports to Cuba last year were worth \$59.3m against imports of \$7.27m.

US banks suffer record failures

By Nancy Dunne in Washington

US BANKS, plagued by troubles in the agriculture and energy sectors, suffered a record number of failures in 1986 for the fifth year in a row.

As of mid-December, the Federal Deposit Insurance Corporation (FDIC) had placed 1,484 banks, about one out of every 10 banks it insures, on its list of troubled institutions. According to the FDIC, 198 insolvent US banks were either merged or liquidated last year. Failures rose from 120 in 1985 and 79 in 1984. During the late years of the great depression, from 1934 to 1939, bank failures averaged 67 per year, half of the current rate.

The banks that have failed are comparatively small with assets averaging about \$50m. However, it is believed that bank regulators, who have come to the assistance of large banks in the past, will not allow the giants to fail. The FDIC can also give financial help to banks and last year assisted several failures last year—36—were in Texas, where the oil glut and collapse in prices has struck hard. Oklahoma had 16 failures, Kansas 14, Iowa 10 and Missouri, nine.

The number of failures was the highest since the FDIC was created to insure investor savings in 1934. The assets of last year's failed institutions totalled \$7.7bn, and it cost the FDIC \$2.5bn to pay off depositors.

The Federal Reserve Board is due to vote on Thursday on a measure which could force banks with risky loans to maintain higher capital levels in order to reduce the number of failures.

AP adds from Washington: However, the figure was far below the early years of the depression, when accounts were not insured and rumours could spark bank runs by people frantic to withdraw their deposits. An average of 2,277 banks failed each year from 1930 to 1933, with an astounding 4,000 failures in 1933 itself, according to the FDIC.

Meanwhile, the Federal Home Loan Bank Board reported that 21 savings and loan associations closed their doors in 1986, while 43 were ordered to change management and 22 were forced into mergers with stronger partners. Savings and loans, also known as thrift institutions, make personal but not commercial loans.

In addition, about 250 thrifts out of some 3,250 whose deposits are insured by the Federal Savings and Loan Insurance Corp are in trouble. The 21 thrift closures also set a modern record. Ten thrifts collapsed in 1985, nine in 1984 and six in 1983.

Bangladesh to buy airliners

BIDAN, the Bangladesh national airline, will buy two more wide-bodied aircraft to replace its ageing Boeing 707s, Mr Mohammad Abdus Sattar, State Minister for Aviation said. Reuter reports from Dhaka. He told reporters the country was negotiating with a number of aircraft manufacturers including McDonnell Douglas and Boeing of the US and Airbus Industrie, the European consortium.

Nissan advances European plans

By Kenneth Gooding, Motor Industry Correspondent

NISSAN, second-largest of the Japanese automotive groups, is to spend about £1.44m (£13.6m) to double the capacity of its European warehouse facilities at Amsterdam one year ahead of the original schedule.

The company gives three principal reasons for the move: first the UK assembly plant at Washington, Tyne and Wear, will begin shipping cars to continental markets

in 1988; secondly Nissan intends to sell more European parts; and lastly, the group's penetration of European car markets has exceeded previous expectations.

The Japanese group set up Nissan Motor Parts Centre (Europe) with initial capital of £1.5m in May 1983 and operations began last July. Nissan says estimated sales for 1986 fiscal year will be £1.245m and NMPC now employs 240.

Nissan is also to combine its after-sales service organisation in Europe, currently based in Brussels, with NMPC.

Last year Nissan sold about 307,000 cars in Western Europe for a 2.9 per cent market share. By the end of November this year the group had registered about 284,000 cars, an increase of nearly 13 per cent on the same period of 1985, and pushed up its share to 3.1 per cent.

S. Korea to finance import substitution plan

SOUTH KOREA plans to lend 7,800bn won (\$5.2m) at concessional rates over the next five years to companies engaged in import substitution. Reuter reports from Seoul.

The ministry has selected 13,458 electronic goods, items of machinery and various parts now purchased abroad, mostly from Japan, which the Government wants to be made locally.

Bhutan projects launched

By John Elliott in New Delhi

THE Himalayan kingdom of Bhutan is to launch its first big industry programme in its sixth five-year plan for 1987-91, with projects aimed at using the country's natural resources, including limestone and hydro-electric power.

A \$50m cement plant is to be built in the south-east of the country where there are large limestone deposits, possibly using technology from Denmark of Switzerland.

It will account for around 10 per cent of the expected total plan expenditure of about \$760m and is expected to export most of its 1,500 tonnes daily output to India and Bangladesh.

The economy of Bhutan which lies between India and China is largely based on agriculture. Both its economy and trade are closely tied to India with which it also has diplomatic and other links.

A 336MW hydro-electric power station to serve industry is being built at Chukha by India which will help to run it and will import a substantial amount of its output.

Japanese win Java oil contract

By John Murray Brown in Jakarta

A JAPANESE consortium headed by Japan Petroleum Exploration Company, Japex, has won a \$90m (\$64m) contract to explore for oil on Java, Indonesia's official news agency reported.

The 10-year agreement signed in Tokyo gives the consortium 53.5 per cent of crude production as repayment for investment costs and 46.5 per cent as profit share.

The terms appear markedly more attractive than those allowed under the current production sharing contracts. It is seen as a concession to Japan, the leading buyer of Indonesian oil and which has hitherto played only a minor role in the country's exploration and production.

The contract will be financed up to 80 per cent by Japan's National Oil Company with the remaining 10 per cent raised by the 10-member consortium. It will cover 7,000 sq km in West and Central Java, Indonesia's main island.

Indonesia's central bank will provide export credits for foreign buyers of aircraft built by PT Nusantara (IPTN), the Indonesian aerospace industry. Dr Arslan Siregar, the bank's governor, told a parliamentary committee.

The credits, given according to requirements set by the Organisation of Economic Co-operation and Development will be for seven years. The grace period will be two to three years, with interest payable at 7.4 per cent, the governor said.

IPTN is also reported to be seeking support from Deutsche Bank of West Germany and two Japanese financial institutions.

Negotiations are under way with several other countries including Burma, Japan, Thailand and Bangladesh. IPTN manufactures the multi-purpose turbo-prop C212 aircraft under licence from Casa of Spain, and the larger CN235 in a design and production partnership.

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Who ever said that the business world is dull?



Abu Dhabi



Amsterdam



Atlanta



Bahrain



Bangkok



Bombay



Brussels



Chittagong



Cologne



Colombo



Dhaka



Geneva



Gibraltar



Hamburg



Helsinki



Hong Kong



Istanbul



Jakarta



Karachi



Katmandu



Kuala Lumpur



Lausanne



London



Luxemburg



Macau



Madrid



Manila



Milan



Montreal



Nagoya



New York



Oslo



Paris



Peking



Port Moresby



Roma



Sana'a



Shanghai



Stockholm



Sydney



Tokyo



Wellington*

1987. A whole year of opportunities.



BANQUE INDOSUEZ

* And in 66 other major cities around the world.

UK NEWS

Ten directors resign at public relations group

BY DAVID CHURCHILL

TEN DIRECTORS of Communications Strategy Limited (CSL), an unquoted consultancy which is ranked seventh in the UK with a fee income last year of £3.2m, resigned yesterday. The consultancy's clients include the Australian Tourist Commission and the Mail on Sunday. It was the culmination of a board row involving one of the UK's fastest-growing public relations consultancies.

Their move follows the resignation shortly before Christmas of Mr Alan Butler, the company's managing director and chairman of the Public Relations Consultants Association.

Mr Butler resigned over "irreconcilable differences" with Mr Bruce Clark, the company's chairman and founder. The 10 directors who quit yesterday - five were non-executive - cited "the continuing lack of up-to-date financial information" being given to them as one of the causes of their resignations.

CSL is the trading company owned by Communications Strategy Group. The group board has five members and the CSL board had 15 members before the resignations.

Mr Bruce Clark, chairman of CSL, said yesterday that any fast-growing business "had growing pains and we have outgrown some of the people who work for us." This

TOP 10 BRITISH PR AGENCIES

	Fee income £m
1. Shandwick Group	7.4
2. Charles Barker Group	7.0
3. Good Relations	5.8
4. Vain Pollen	4.8
5. Eurocom-Marschall	4.4
6. Davis Rogerson	4.1
7. Communications Strategy	3.2
8. Grayling Group	3.1
9. Streets Financial Strategy	2.9
10. Hill & Knowlton	2.7

Source: PR Week

split at a leading public relations consultancy, however, highlights the problems within the PR business over the past year.

A number of leading public relations consultancies have seemed to court more publicity for themselves in an attempt to go public on either the Unlisted Securities Market or full stock exchange.

The Charles Barker Group, for example, joined the full market in the summer amid a blaze of publicity at an offer price of 140p. However, the City has not been impressed with PR companies going public and Charles Barker's shares currently are rated at 105p.

Good Relations, the first PR company to go public in 1983, also attracted the sort of publicity over the

past year which PR companies are usually paid to keep out of the papers. Not only did a number of key staff leave Good Relations but the deputy chairman, Ms Maureen Smith, also was criticised by the Stock Exchange and the Institute of Public Relations for the way in which she sold her shares in the company. Good Relations was eventually acquired by an advertising agency, Lowe, Howard Spink.

Ironically, these problems among the larger consultancies have come at a time of booming demand for their services. The 113 members of the Public Relations Consultants Association reported a 22 per cent increase in fee income in 1985 to some £50m. Total spending on all forms of PR - including in-house PR - is estimated at almost £500m in the UK last year.

Many companies, however, appear increasingly worried that the standards of PR are falling as rising demand is being fuelled by untrained PR recruits. Even the PR consultancies themselves seem aware of this problem. "Two many practitioners appear to be cutting corners, settling for superficial solutions to current needs, and setting the scene for an erosion of standards," Mr Frank Barnard, chairman of the McCann consultancy, said.

TRADITIONALLY it was the House of Commons that was regarded as the graveyard of aspiring politicians because of the number of potentially dangerous issues it had responsibility for; then the Northern Ireland Office was added to the departments in which it was hard to score brownie points. More recently, the Department of the Environment has been at or near the top of any ministerial list of ministries it would be wiser to avoid.

The constant skirmishing over local government finance between Whitehall and both Conservative and Labour local authorities has been fraught with political dangers for the Government, and the recent wriggings over the 1987-88 rate support grant settlement have underlined the difficulties. Rates are local property taxes which are supplemented by central government.

How successful Mr Nicholas Ridley, the Environment Secretary, will be in preventing local government issues from continuing to be a liability remains an open question. But with a general election likely this year the stakes are high.

Mr Ridley, a total contrast to his predecessor, the high profile but conciliatory Mr Kenneth Baker, is equally politically astute but his approach is much more overtly Thatcherite and confrontational. He has little patience for the wear-and-tear of local government finance and his mistrust of the motives of many local politicians shows.

Richard Evans assesses the Environment Department's efforts to curb spending

Ridley gambles over local government

GAP BETWEEN PLANNED AND ACTUAL SPENDING, ENGLAND

	1981-82	82-83	83-84	84-85	85-86	86-87
Planned	18.18	18.00	18.00	20.20	21.51	22.25
Actual	17.47	18.06	18.00	21.53	22.50	24.24
%	96.1	100.3	100.0	106.6	104.6	108.9

Source: Tony Travers, Public Money, December 1986

At first sight his efforts so far to produce a formula for the distribution of rate support grant to local authorities for 1987-88 have been a shambles, culminating in the embarrassing introduction last month of an emergency bill to legislate the incorrect payment of grant over the last six years. But like most things in the field of local government finance, matters are rarely that simple.

The sequence of events illustrates both what a minefield the area has become, and a high degree of political naivety on the part of the Environment Department.

The original rate support grant settlement proposed in July was based on more money being made available than ever before (£12.8m, a 9 per cent rise on 1986-87) but when more details were published in October it was seen that a few local authorities would gain immensely, but a lot would gain very little or would lose.

Psychologically it was the worst of all worlds for Mr Ridley. His attempts to direct more money into the inner cities, where it was most needed, also meant that the beneficiaries were broadly Labour and the losers almost exclusively Tory.

Survey was set to receive only £12m compared with £33m this year. Hertfordshire £27m against £43m and Berkshire £36m instead of £41m. In short, the counties close to London were affected, and Tory MPs threatened a bigger revolt than the previous year when 32

back-benchers voted against the Government and a further 20 abstained.

It was more than the Government was prepared to face, and using the pretext of fresh information that meant a revised formula was needed, Mr Ridley scolded a tactical retreat.

On December 3 he announced an unprecedented third attempt to get the formula right and this time political factors were clearly in evidence as the ground rules for re-writing grant were re-written.

Areas like Surrey with £7.7m more, Hampshire with £6m more, and Hertfordshire with another £8.4m were the main beneficiaries, together with the London boroughs. It was enough to persuade most of the Tory rebels to back down.

Inevitably, some rural authorities found themselves worse off - Derbyshire was down £22m and Cleveland £11m - but politically it was

much easier for the Government. The main losers were the metropolitan authorities, particularly Birmingham, Bradford and Merseyside.

In all, there were 359 gainers, 19 authorities had no change in grant, and only 49 losers. It was a much easier formula to defend politically, as the losers were nearly all Labour controlled.

The key question now for the Government in general and Mr Ridley in particular, is whether the strategy will work. In the short term a rebellion has been averted, but real success or failure depends on what happens to rates in the next financial year.

Mr Ridley's view is that most local authorities should have very low rate rises, or even cuts, provided they do not increase their spending by more than the Government's projections. But this could be optimistic. It is certainly regarded as unrealistic by some independent experts, including Mr Tony Travers, senior research fellow at the North East London Polytechnic. "I would not be nearly as complacent as the Government," he says.

The grant figures presuppose that local authorities will be spending in 1987-88 at or below this year's level in cash terms, taking inflation at around 4 per cent. "This

has never happened before, and there are a number of reasons why councils could need to push up their spending," says Mr Travers.

First, the Government's inflation assumptions could be too modest according to some forecasters, who believe inflation could top 5 per cent in the next financial year.

Second, insufficient account has probably been taken of pay rises for many council employees, including manual workers and teachers. Mr Baker, now Education Secretary, has pledged to pay £180m towards the teachers' settlement, but the total cost could be over £600m, and ratepayers will have to pick up the tab.

The Chartered Institute of Public Finance and Accountancy (Cipfa) estimates the cost of the teachers' pay settlement could push rates up by 3 to 4 per cent more than is assumed from the Government's sums.

Third, there is the issue of creative accounting. Some local authority spending in the current financial year has been funded by borrowing cash from special accounts and by similar methods. If these sources are exhausted, spending on the affected projects will have to be continued from the rates. The total amount involved is not known, but it is considerable, particularly among the 40 authorities whose rates have been limited, or "capped," by the Government.

So, a great deal will depend on the scale of rate rises in the spring. If, as the Government hopes, they are restricted to low single figures, it will be excellent news prior to a possible summer or autumn election.

But if they are pitched at twice the rate of inflation it would be disastrous news for the Conservatives. Whether Mr Ridley has got it right or wrong could be one of the decisive factors in the outcome of the election.

Control of more Scots companies moves south

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

RECENT SHIFTS from Scotland to England in the control of major companies has meant a drop of more than 50 per cent in the total capital employed by listed Scottish industrial and manufacturing companies.

Over the past 18 months total capital employed by Scottish companies in these sectors has fallen from £4.72bn to £2.27bn, and the number of companies has fallen from 80 to 63.

These figures, compiled by the Glasgow office of the management consultants Inbucan, highlight the growing concern in Scotland at the transfer of control of Scottish companies to companies based in England.

The process was accentuated last year by the takeover of the Edinburgh-based drinks group Distillers by Guinness and that of the Glasgow-based textile concern Chas Patons by Vantona Viyella. House of Fraser passed into the hands of the Al-Fayed brothers in 1985 and control of a number of smaller companies has moved to England in the past 18 months.

Although there have been a number of acquisitions of English companies by Scottish-based concerns over the same period, these have been dwarfed by the flow in the opposite direction.

The issue of the loss of Scottish control of companies is assuming increasing importance among Scottish politicians and business leaders. Although the assets and employees of companies now controlled from England remain in Scotland, the loss of control and the departure of company headquarters usually mean a decline in demand for ancillary services such as legal, accountancy, advertising and public relations, which are usually switched from Scotland when the headquarters move.

In its latest issue, the Edinburgh-based monthly magazine, Scottish Business Insider, points out that Guinness would have headed its annual table of the top 500 Scottish-based companies ranked according to turnover. But because Guinness has not so far redeemed promises made during the Distillers takeover battle to move either its registered office or its head office to Edinburgh, Guinness features in the listing only through its subsidiaries Distillers (ranked fifth) and Arthur Bell (18th), which produce two-thirds of its profits.

The Scottish Business Insider list is headed by Bristol, which had 1985 turnover of £1.78bn, followed by Standard Life, and Royal Bank of Scotland.

Britain 'is in danger of becoming slum society'

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

BRITAIN is in danger of becoming a slum society because of bad housing, said Lord Scarman, author of the report on the Brixton riots, launching the UK campaign in the UN International Year of Shelter for the Homeless.

He said tackling the problem of Britain's 250,000 homeless people, 4m substandard and 1m unfit houses could cost up to £26bn, with an estimated £18bn needed to repair public sector housing in England alone.

"Unless something is done to meet the bill for repairing our housing stock, our own children and grandchildren will find themselves condemned to live in slums," said Lord Scarman.

Three problems have been identified as priorities in the UK: ending reliance on temporary bed and breakfast accommodation for homeless families; improving housing for the 500,000 elderly people living in homes classified as unfit for human habitation; and helping the homeless young by providing more

houses, flats and rooms to rent at prices they can afford.

There were a total of 180,000 people living in board and lodging accommodation in 1984, the most recent year for which figures are available, at a cost of £550m. Cambridge Econometrics estimates that 50,000 jobs could be created in construction if a similar sum was spent on repairing and building new houses.

"We must spread public knowledge of the gravity of the problem of homelessness and campaign for the provision of substantial capital resources for housing," said Lord Scarman.

"The Government must provide funds for repair and renewal and ensure that housing is available within the means of the homeless."

The campaign is starting as the number of council houses built in the UK has fallen to its lowest level for 60 years and as the Government sees homelessness as a problem overseas rather than in the UK, say the campaign organisers.

Renold names new chief

BY NICK GARNETT

RENOLD, the Manchester-based engineering group which was the subject of a boardroom shake-up last October, has appointed Mr Trevor Grice, until recently managing director of the Frank Horsell Group, as its new chief executive.

Mr Grice, aged 45, was closely associated with the aggressive marketing and pricing policies of Horsell, the second largest supplier of lithographic printing plates in the

UK. He resigned from Horsell last year after the group was taken over by Cookson, the metals and industrial chemicals company.

Board changes at Renold involved the effective dismissal of Mr Nigel Blackstad, the group's managing director, and the resignation of Sir Campbell Adamson, the non-executive chairman, in protest at that decision.

When cotton yarn processors James Sutcliffe & Sons Ltd were told of the massive savings they could make by switching from oil to electricity they were, frankly, sceptical.

Ian Flint, Industrial Sales Engineer at Yorkshire Electricity Board, had taken a hard look at the oil boiler - used to provide heat for steaming cotton yarn and for space and water heating in the works canteen - and predicted substantial benefits by switching to electricity.

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UK NEWS

Australian group buys JMB metals offshoots

DEAK MORGAN, an Australasian-owned financial services company, is planning to buy the two metals trading subsidiaries of the former Johnson Matthey Bankers group (JMB), which was rescued by the Bank of England two years ago, Stefan Wagstyl writes.

Johnson Matthey Commodities Ltd, which has a seat on the London Metal Exchange, and New York-based Johnson Matthey Commodities Inc were put up for sale in October by the bank through Baring Brothers, the merchant bank. The bank has already sold almost all the other assets of JMB. The bulk of the banking and gold bullion business went to Westpac of Australia in April. The sale price for the two metals companies has not been revealed, but it is understood to be in excess of their net worth of £10m.

Deak Morgan has two powerful principal shareholders - NZI Corporation, New Zealand's largest insurer which owns 40 per cent, and Ariadne Australia, a fast-growing Australian holding company, which owns 20 per cent. Deak last year changed its name from Martin Properties after it bought Deak and Co, a US-based currency and precious metals broker, with retail outlets across North America.

SUPPORTERS of Mr Neil Kinnock, the Labour leader, should have a working majority on the party's new National Constitutional Committee which will in future decide on the expulsion of dissidents including members of Militant, the extreme left-wing faction.

The leadership was last night claiming to have a margin of seven to four in its favour with only the three constituency party representatives and one hard left trade unionist in the minority. The committee has been elected to conform to the High Court judgment that the party's national executive committee should not act as judge and jury in such disciplinary cases.

The new committee will hear appeals against expulsions by local constituency parties and will deal with investigations referred to it by the party's national executive.

SIR MARTIN JACOMB, the merchant banker, has dampened speculation that he is about to announce his resignation as deputy chairman of the Securities and Investments Board (SIB), the City of London's new watchdog.

He did not rule out, however, the possibility that he might leave the SIB when his term of duty there runs out at the end of May. "I am not leaving before the expiration of my term," he said.

VAUXHALL yesterday joined in the New Year round of new car price rises, with increases averaging 3.1 per cent effective immediately. This is slightly below the average 3.5 per cent average increase imposed by arch-rival Ford, the UK market leader, on January 1.

Vauxhall's increase follows one averaging 3.3 per cent in September, bringing the total over the past 12 months to 8.38 per cent, compared with 7.3 per cent for Ford over the same period.

Even though Vauxhall is heavily dependent on imports of both built-up cars and kits for its UK sales, its 12-month increase is, substantially less than that of some European and Japanese importers against the background of a weaker pound.

ELECTION of Sir Nicholas Goodison as chairman of the London Stock Exchange was confirmed. The first meeting of the council of the renamed stock exchange, the International Stock Exchange of the UK and Republic of Ireland, also confirmed the elections of Mr Stanislas Yassukovich and Mr Graham Ross Russell as deputy chairmen.

WESTMINSTER City Council have decided to appoint a managing director in a move thought to be without precedent in local government. Creation of the post - with a salary range of £37,000 to £45,000 - is part of the Conservative-controlled council's push to introduce a corporate style into local authority administration.

OVERTIME bans by pit managers in the Yorkshire coalfield hit production at 40 mines as work resumed after the holiday. The dispute began over fears of job losses in the coalfield. British Coal said it would not hold talks on the dispute until the managers returned to normal working.

INSURANCE companies have asked for at least another year's delay before they have to start using the proposed new system for regulating life assurance commissions.

Their trade body, the Association of British Insurers (ABI), said they would face "horrendous" administrative difficulties in implementing the new rules. The rules have been devised by the Life Assurance and Unit Trust Regulatory Organisation (LAUTRO), one of the bodies set up to protect investors under the Financial Services Act.

They set strict limits on the maximum commission rates that companies can pay to insurance brokers and other independent intermediaries for introducing life and unit trust business.

Alliance row on defence post recalls policy split

BY PETER RIDDELL, POLITICAL EDITOR

THE disagreement within the Social Democratic Party/Liberal Alliance over nuclear defence policy has partly resurfaced in a dispute about who should be the joint election spokesman on defence.

Dr David Owen, the SDP leader, has proposed Mr John Cartwright, the party's parliamentary manager, but he is opposed by leading Liberals who regard him as having been too close to Dr Owen in last summer's defence row and its aftermath.

Instead, Mr David Steel, the Liberal leader, has suggested Mr Bill Rodgers, the SDP vice-president and former MP, who sought to achieve a compromise in the joint Alliance commission report on defence, and who is seen as more Alliance-minded. Mr Rodgers is himself not seeking the defence post but is trying to avoid a dispute with his party leaders and within the Alliance.

Dr Owen has also made known his belief that a number of the key joint spokesmen should not be held by those currently outside the House of Commons.

Some Liberals suspect that Dr Owen wants his own ally in the key defence post so as to be able to determine presentation of policy during the election campaign.



Mr David Steel



Dr David Owen

The defence dispute is only one of a series of uncertainties about the announcement of joint election spokesmen planned for later this month ahead of the London rally intended to launch the Alliance's pre-election campaign. Further talks will be held next week between Dr Owen and Mr Steel.

There has been argument both about the size of the joint team, which looks like rising from the original 12 to more than 20, and about the inclusion of Mr Rodgers and Mrs Shirley Williams, who are no longer members of Parliament.

A further complication has arisen following the death a fortnight ago of Liberal MP Mr David Penhaggen, who had been pencilled in as employment spokesman in the economics team along with Social Democrat Mr Roy Jenkins and Mr Ian Wigglesworth.

There had been calls by Alliance leaders for Mrs Williams to take over employment in view of her work in this area since losing her Commons seat in 1983. But there might be problems about having such a post held by someone not an MP and also not having a single Liberal in the economics team.

Charles Leadbeater explains the background to the TV broadcasting dispute

BBC focuses cuts behind camera

THE CHARACTER of industrial relations at the BBC in the 1970s might best be summed up by the title of one of the most popular police series of the time - "Softly, Softly".

A decade later industrial relations are being shaped by clear commercial imperatives. In the face of mounting financial and competitive pressures, the BBC is attempting to refashion working practices behind the camera to allow a growing proportion of resources to be directed into programme making.

For the foreseeable future the corporation's ability to raise income will be limited by the Government: the licence fee will stay at £38 till April 1988, and thereafter it is likely

to be pegged to retail price inflation.

Beyond that in the 1990s the corporation may well have to generate much of its revenue from a commercial "pay-as-you-view" system.

At the same time the BBC is having to invest in programme making to secure its position against the competition of direct broadcast satellite, and cable television.

"If the BBC is to survive, we have to be realistic about our income, which is politically fixed. The era of buoyant income is over," says Mr Roger Chase, the BBC's deputy director of personnel. "Cost saving cannot be at the expense of programmes because that would weak-

en our products. So we have to be more cost effective behind the camera."

This is the backdrop to the present dispute between the corporation and 500 electricians, which at midnight on Saturday turned into a strike after a gestation of two years. The BBC said yesterday that it was preparing for the dispute to last for sometime.

The source of the electricians' grievance is a 20 per cent pay award made to 700 London scenery workers in 1984, to "buy out" restrictive practices. According to the BBC, the pay and productivity package did not increase gross

earnings because overtime and shift payments were reduced.

Nevertheless, the award rippled through pay negotiations for the corporation's 5,500 weekly paid staff because other workers - scenery staff outside London, drivers, electricians - concentrated on the way they had been moved down the basic pay league.

Negotiations between the BBC and the EETPU, the electricians' union, aimed at financing an increase in basic rates from higher productivity, started in January 1986. But they were soon embroiled by three developments which reflect the general commercial pressures on the corporation.

Plan to continue late-night television

BY RAYMOND SNODDY

YORKSHIRE TELEVISION plans to push ahead with a permanent late-night television service in the spring following the completion of a six month experiment in all-night broadcasting.

Yorkshire has been broadcasting the pop music satellite channel Music Box throughout the night since August - an experiment which ended at 6am yesterday.

Between midnight and 2.30am audiences varied between 350,000 and 750,000 but by 4am the numbers were usually too small to measure. Mr Clive Leach, Yorkshire's director of sales and marketing, said yesterday: "It's viable until about 2.30am but in the wee, small hours of the morning there may not be an audience that is commercial."

As a result of the experiment

Yorkshire intends to ask the Independent Broadcasting Authority for permission to extend its broadcasting hours after midnight. Yorkshire had not yet decided how late it would like to broadcast.

It could turn out that audiences after 1am may not be large enough to justify the cost.

The six-month experiment was aimed entirely at young people.

Yorkshire may now try different mixtures of programmes to see whether larger late-night audiences can be identified. One obvious option is to broadcast old films.

Mr Leach believes the experiment was a success and the information obtained will help plan a regular late-night service which could start by April.

New editor appointed to Today

By Raymond Snoddy

MR DENNIS HACKETT, a specialist in relaunching ailing magazines, has been appointed editor in chief of Today following the resignation of Mr Brian MacArthur.

Mr Hackett joined Today in June as executive editor. It is believed the other main contender for the Today editorship was Mrs Angela Gordon, news editor of The Observer.

Since 1974 Mr Hackett has been a publishing consultant involved in relaunches at The Tatler, The Spectator and The Field and is credited with turning round the Mail on Sunday's colour magazine, You, after a disastrous launch.

Mr Hackett, who began his career in journalism on the Sheffield Telegraph in 1948, was editor of Queen magazine and a former editorial director of TPC magazines.

Mr Hackett said yesterday of the progress of Today: "We are attracting a core readership of young, intelligent, fashionable individuals who are interested and concerned about the world we live in, but like a bit of humour now and again."

Later this month Today will launch theme advertising on television aimed principally at attracting the 20-34 year olds in the BCI social classes.

Today is selling around 320,000 copies a day at the moment. The colour tabloid began distributing in Ireland, both north and south, on Saturday and hopes the numbers there will build from an initial 20,000.

Touche Ross back statutory regulation

By Barry Riley

A GENERAL Audit Council, a new statutory body, should be created to improve the regulation of the auditing profession, according to Touche Ross, Britain's sixth largest firm of accountants.

Touche is the first of the big firms to publish its formal response to last August's consultative document from the Department of Trade and Industry on the regulation of auditors in the context of the European Community's Eighth Directive.

The firm also calls for a major improvement in the profession's communication with the public with, for example, a statutory requirement for firms to report all significant settlements of negligence claims.

Mr Michael Blackburn, Touche's managing partner, said yesterday: "We believe that there is a level of public concern, and an appropriate response is to have a General Auditing Council. We think that is in the long-term interest of the auditing profession."

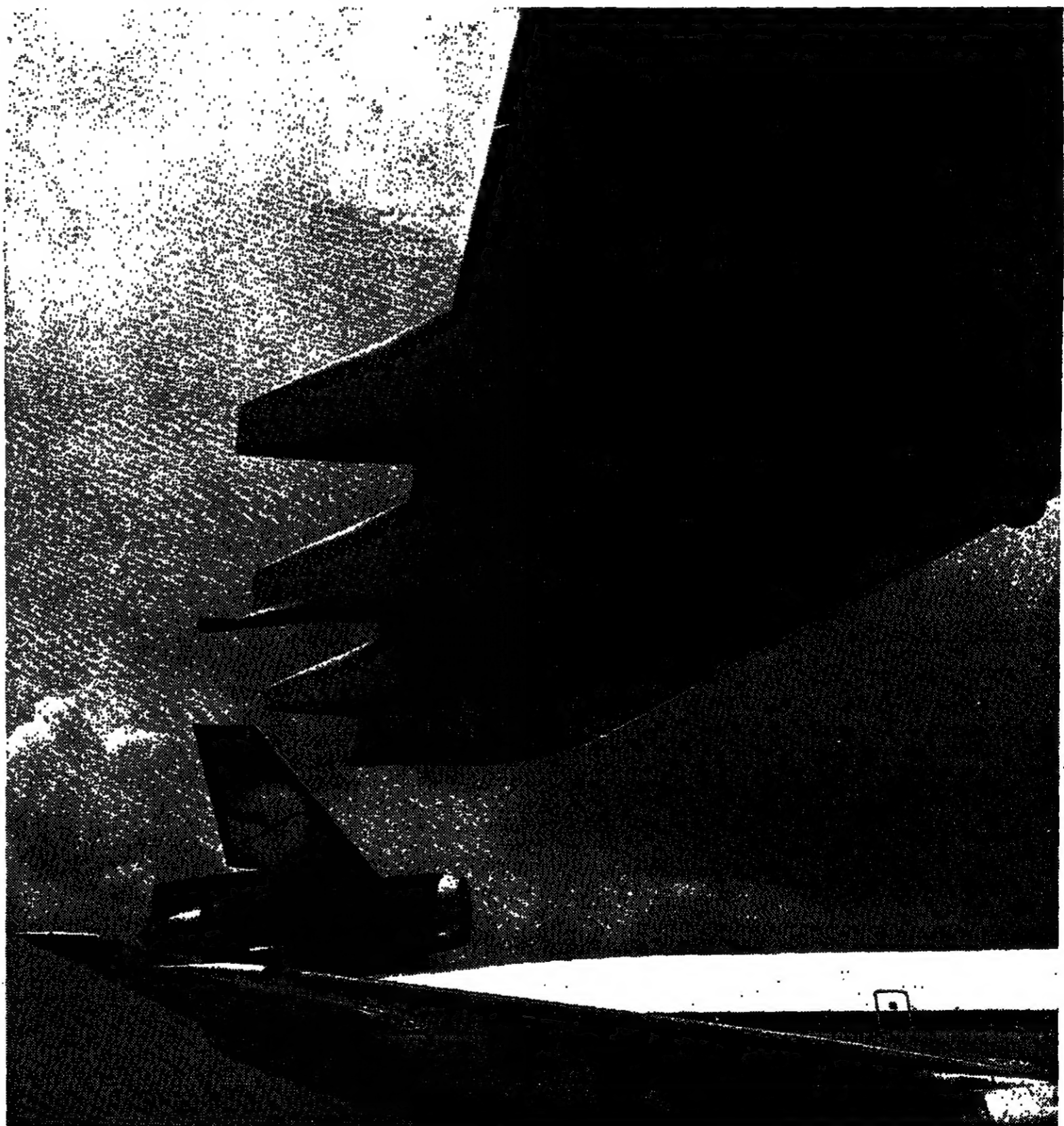
The GMC, according to the firm's submission to the department, would provide a mechanism for conducting investigations and publishing the results, and would help the profession to reassure the public that regulation was effective.

The firm criticises some suggestions in the consultative document, such as that audit business should be split away from other activities, or that audit appointments should be compulsorily rotated every five years. These proposals were put forward to bolster the independence of auditors.

Touche Ross says that such proposals would "hinder and not help the maintenance of high audit quality in the UK."

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Shipyard fails to win backing for Indian order

By MAURICE SAMUELSON

AN ALBERTA shipyard has apparently failed to win government financial backing for a £150m Indian export order which it says would safeguard some 500 shipbuilding jobs.

Executives of Hall Russell, the shipyard privatised last March, are this week meeting Indian officials in New Delhi where they are competing with Singapore and Korean shipyards to supply offshore protection vessels to the Indian Department of Petroleum.

Last month, they claimed their rivals were backed with "massive" financial aid from their own governments and that Hall Russell could only compete on price with help from Britain's Overseas Development Administration.

They backed up their appeal with a letter to the Prime Minister. However, the Department of Trade and Industry, while not rejecting the request out of hand, says it sees no justification for approving aid. Officials said yesterday they had no evidence of government help for the Far East competitors, one of which, Singapore Shipbuilding and Engineering, issued a public denial that it enjoys government aid in this or any other project.

The department also says bilateral aid would also be inappropriate for what is regarded as a military, rather than civilian, shipping order. Now could such help be considered until it had received a direct, formal request for it from the Indian authorities.

Contract awarded for sale of satellite pictures

A UK-LED international consortium has won an important contract to sell pictures of Western Europe taken from outer space, Peter Marsh writes.

The pictures, taken from two US Landsat satellites, provide information which can be used for mapping, military surveillance, monitoring of crops and the evaluation of mineral deposits.

The consortium, led by Hunting Technical Services, of Borehamwood, north of London, has been told by the 11-nation European Space Agency (ESA) that it can take over distribution of the data sent from space to three European ground stations. In the past, the ESA itself has been responsible for selling the information, the biggest customers for which include oil companies, local authorities and military organisations.

The other members of the consortium are Telespazio, an Italian government-owned company which operates satellite systems, the Swedish Space Corporation, Spot Image, a Toulouse company which operates France's Earth-observing satellites, and the DVL, a state-owned aerospace research organisation in West Germany.

According to Mr Donald Chambers, managing director of Hunting Technical Services, the companies plan to set up a joint organisation, Eurimage, to handle the sales of the space data. The companies are still talking with ESA about the final details of a contract for selling the information.

Sales of data sent to the three European ground stations - which are in France, Italy, Germany, Sweden, and Yugoslavia, in the Canary Islands - are very small, at less than £1m a year.

ESA decided to involve an outside organisation in distributing the information, in the hope that more professional marketing techniques will increase sales. Eurimage, when it is properly constituted, will prepare a marketing plan and also arrange the details of a deal with ESA under which the agency obtains a share of total revenues.

At present, most of the cash from Landsat sales is kept by ESA. The agency also has to pay a royalty on sales to ESA, the US company which operates the satellites, data from which are received by a total of about 12 ground stations around the world. Total revenues for ESA, a joint venture between ESA and Hughes Aircraft, two US aerospace companies, come to about £15m a year.

The small sum obtained from sales of Landsat data sent to the European stations does not begin to compensate for the cost of operating the equipment. This is paid out of ESA's budget of roughly £15m a year.

ESA chose the Hunting-led consortium after inviting bids from outside concerns for running the receiving stations. The only other bidder seriously in the running for the contract was another consortium, led by Societe, a subsidiary of Thomson, the French electronics concern.

Doubts on British role in European space plan

By PETER MARSH

PUBLICATION of a plan for Britain's activities in space over the next decade has been delayed, casting doubt over the degree to which the UK will participate in an important European programme, the development of the Hermes space shuttle.

The plan, which was due for publication before Christmas, is now unlikely to receive the blessing of ministers until early February. Ministers have asked for more information from civil servants on how space projects fit in with other government research and development activities, and also on the likely commercial benefits arising from extraterrestrial ventures.

It is believed that ministers are also cautious about committing themselves to new programmes which would raise substantially the country's space budget. Britain spends on civilian space ventures about £100m a year, a total which could rise by 70 per cent by the early 1990s if all the elements in a draft space plan drawn up by civil servants are approved.

The cash is spent on projects such as satellites for telecommunications and observation, astronomy experiments and contributions to



Mrs Margaret Thatcher: keeping watch on developments

European programmes. Much of the new UK spending envisaged by UK officials involves commitments to new European projects, which are administered by the 15-nation European Space Agency (ESA) and which include the design of the Columbus orbiting laboratory and continued developments of Europe's Ariane rocket.

The most immediate result of the delay in the UK space plan is that Britain is still unable to tell the

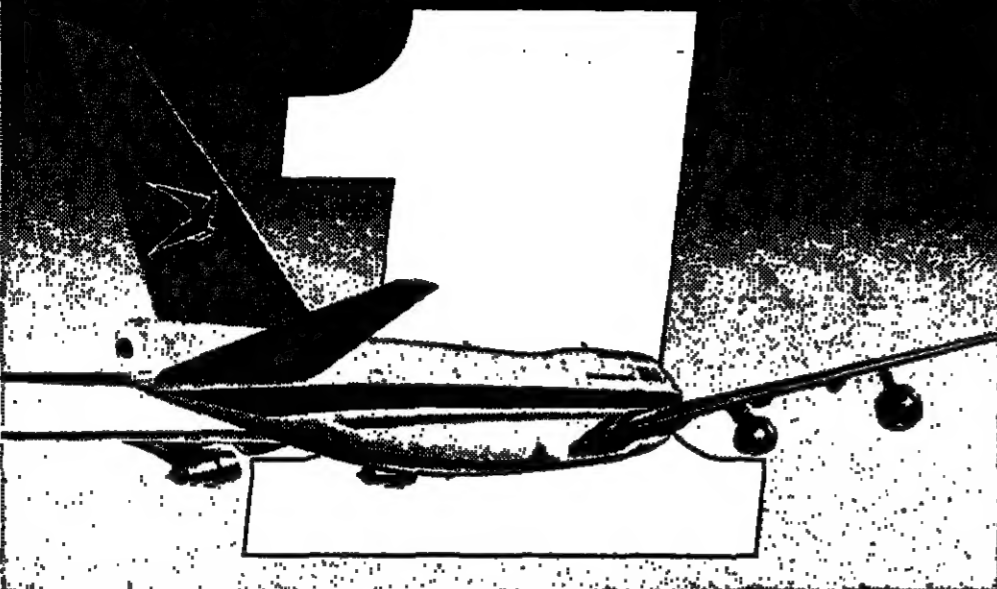
ESA whether it will join one of the new European projects. This is a plan to design Hermes, a manned space vehicle which is due to reach orbit on top of an Ariane rocket.

Most of the other ESA countries declared an interest in the project last month, with work by industries in these nations starting as a result. The work is aimed at defining design details for Hermes, before a further decision due this summer on whether to build the craft at an estimated cost of £2bn to £3bn.

Mr Geoffrey Pattie, the industry minister responsible for space technology, has been reviewing the draft space plan, drawn up by officials in the British National Space Centre, since July.

At the start of this month the ESA expanded its membership by two countries, with Norway and Austria joining the 11 nations already in the agency.

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MANAGEMENT: Small Business

West German venture capital

Cautiously prodding at a mentality

TVM, with the backing of the giant Siemens group, is a trailblazer in backing small ventures. Andrew Fisher reports

IN THE fast-moving world of venture capital, West Germany has hardly progressed beyond the starting line compared with the strides made in the US and Britain.

The fledgling state of venture capital in Germany reflects the innate caution of the business world, where daring and adventure—not words that spring readily to mind.

Yet the concept is gaining ground fast. "The US has a long history of venture capital," says Peter Kaleschke, a managing director of Techno Venture Management (TVM), one of the earliest and best-known venture capital firms in Germany. "We don't have it, but in seven or so years' time, we see the potential for some of our investments to become big businesses."

The managers of TVM and other such concerns in Germany are well aware that venture capital still has to be sold to a large part of the business community. Unlike the US, it is by no means embedded in the national corporate and financial mentality.

Hence the tendency to adopt a not-too-aggressive, almost softly, softly approach in Germany. Not only was it hard to find the right managers to run venture companies like TVM, but the task of persuading big German groups to invest also had to be tackled correctly.

Today, TVM, in which the giant engineering and electronics group, Siemens, has a major stake, has funds of DM 160m (\$85m) for investing in German and foreign companies. Nearly half of this has already been spent and TVM will be more or less fully invested by the end of next year.

By the standards of venture capitalists in the US or UK, Munich-based TVM is going at a fairly cautious pace. None of its investments has gone bust. "While this gives TVM cause for satisfaction, it has brought criticism from outside Germany that the investment policy is too circumspect."

In the UK, people say it's too good not to have lost an investment, meaning "you don't lose, if you don't dare." From the UK or US point of view, he

admits, this may be right. But here in Germany, we have a certain responsibility to show that venture capital does not mean just losing money and spending on risky things, but investing after thorough investigation.

Since Germans are nothing if not thorough, the risk element is clearly diluted compared with the more free-wheeling, often playful, spirit apparent on the US scene. But for an operation like TVM, adds Kaleschke, "It might be a positive sign that we have not lost an investment."

TVM has invested in 18 companies in Germany and one in Austria. Overseas, it has direct stakes in 15 firms, including 13 in the US. TVM has also invested in venture capital funds in the UK, US, Japan and Singapore.

In Germany, most of the investments have been in start-ups or firms just past that stage. The size of the injection ranges from DM 500,000 to DM 2.5m, and TVM's policy is to take only minority equity stakes, leaving the founders and managers of the investments with a responsible role. Where they may lack accounting, strategic or other skills, TVM puts in one to help them. On average, this amounts to around two days a week.

Not surprisingly, the emphasis is on high technology sectors such as computers, electronics, and communications. TVM was one of the first investors in European Silicon Structures (ESS), the microchip company set up in 1985.

With Siemens, also based in Munich, as one of TVM's shareholders, the electronics connection might seem an obvious one. But TVM is at pains to stress its arm's length relationship with Siemens, which holds its stake through VCB (Venture Capital Beteiligungsgesellschaft).

The other partners in TVM are the Munich-based Matschke Group (headed by Count Albrecht Matschke, an ardent advocate of financial and corporate innovation), TA Associates of Boston (with which TVM co-operates in its US investments), and David Cooksey, a London-based venture capital expert. TVM's management also has a small stake.

Siemens played a key role



in helping to set up TVM, but the latter is only one of the group's venture capital activities. As well as investing in other funds or offering straight development contracts to promising young companies, it also has its own incubator-style operation to prepare firms financially and managerially for the harsh outside world.

So far, two companies have been spun off from within Siemens own research departments after passing through the incubator stage. The first was ICT, an integrated circuit testing company. TVM now has a 49 per cent stake in ICT, but is not involved with the second spin-off, TFS, which makes data processing control equipment.

For a company the size of Siemens, its total research and development spending exceeds DM 5m a year—venture capital funds only a tiny part of its activities. But Siemens' executives insist that it is serious about venture capital, and not just for show.

"When we started getting involved," recalls Jochen Mackenrodt, Siemens' vice president responsible for sub-

sidaries and venture capital, "it was practically unheard of. It was considered as a disease, not something to be copied. There were no buy-outs then either—no one wanted US practices here."

Management buy-outs are still fairly rare in Germany, but Mackenrodt is gratified by the growing acceptance in the Federal Republic of venture capital. "We are happy we did it," he adds, admitting surprise at the speed with which Siemens' various activities in this field have taken off.

We had to translate venture capital to everyone we talked to. TVM raised its first DM 110m in 1984, with funds provided by Siemens, Bayer, Daimler-Benz, Mannesmann, Deutsche Bank and other top German concerns. Just under a year ago, the second DM 50m was raised from foreign institutions and industrial groups from the US, Japan, and Europe.

"We needed the support of some conservative German groups," comments Mackenrodt on the initial fund-raising. "The fact that German companies identified with something that might be crazy or

unusual made it possible to obtain management trust, so that the whole thing was not seen as a possible disaster or a joke."

TVM is now well past the stage of finding it hard to recruit the right managers—it has four managing directors and 12 full-time company experts, he adds. "Now, we get letters every week from bright young people." Before, people were frightened of leaving safe jobs with good pay and long holidays.

The changed political and investment climate has stimulated interest in venture capital, with the conservative Government in Bonn—expected to be re-elected on January 25—encouraging the development of financial markets and easing companies' tax burdens. Also, high unemployment has caused young people to consider starting their own businesses and working outside the corporate establishment.

"Entrepreneur is no longer a nasty word," says Kaleschke. "People now dare to go off and leave the bigger companies, or leave university and start their

own businesses." For investing companies like Siemens, venture capital also offers an insight into new technologies. Other German groups like BMW and Nordor have developed strong venture capital interests of their own.

The Siemens spin-offs have the same aim of combining an eventual profit with a so-called window on technology, the difference being that ICT and TFS—a third spin-off is likely in a year or so—sprang from in-house research projects. Siemens felt they would not become big enough to warrant further development by the group, but were promising enough to be given a chance in other hands.

Since both TVM and Siemens' own venture capital activities are so new, it is too early to judge whether they will pay off handsomely or not. Kaleschke, himself a former manager on the acquisitions side with Siemens, says TVM's investments in Germany are mostly near break-even, with some showing spectacular sales rises.

Of TVM's funds, two-thirds (DM 105m) are being invested in Germany, or its German-speaking neighbours. The other DM 50m is going further afield, mainly in the US. As well as being a third spin-off in the US, TVM helps its German companies gain a foothold there. Hellmut Kirchmer, the TVM managing director in the US working with TA Associates, says the hardest task for young German companies is not so much entering the US market, but staying there with the right service and administrative back-up. "We do a lot of hand-holding."

TVM also helps its US companies if they want to move into Europe. On both sides of the Atlantic, its money is being invested for 10 years. After that, in the mid-to-late-1990s, venture capital should be an integral part of German business life. With more firms going public and stock markets being modernised to widen investors' interest, TVM may be able to float some of its choicest companies. For TVM to realise its investments, says Kaleschke, "we have to think of exit possibilities."

Alta Berkeley raises \$32m in its third funding

VENTURE CAPITALISTS. Alta Berkeley Associates, which in the past three years has completed 27 investments in the UK, continental Europe and the US, has just raised its third fund, this time for \$32m.

Once again, the three major fund investors are Citibank, Manufacturers Hanover and Harvard University, and investment policy is to continue to concentrate on the electronics and health care sectors.

However it has been decided not to invest further in the US (where there are three investments) and the key investors already have a substantial exposure) and perhaps to consider opportunities in Scandinavia for the first time. Existing investments are in the UK, Irish Republic, the Netherlands, Belgium, West Germany and France.

Since it aims to balance its portfolio, Alta Berkeley will be looking to back start-ups as well as established young companies which are seeking funds for particular developments.

The latest fund compares

with a total of \$34m for the first two. None of the new money is likely to be used for second-round financing of existing investments since the initial funds are considered to be of sufficient size to put up further cash if and when needed (some fund investors have participated directly in second-round financing).

In the electronics sector Alta Berkeley has put money into various software companies and others involved in such things as fibre optics—but no computer companies. Health care companies, which have absorbed the lion's share of investments, include those involved in pharmaceuticals, advanced surgical devices, orthopaedics and diagnostics.

Though UK-based, Alta Berkeley has raised most of its funds outside the country. This is in contrast to a number of other UK venture capitalists, though the more recent trend has been to internationalise the funding base and source of investments, with many funds showing a greater interest in continental Europe.

BES feels the squeeze

LEGISLATION has clearly had a substantial effect on the growth of Business Expansion Scheme funds. By the end of November the number of funds closed (including open-ended schemes) was just eight, compared with 18 at the same point in 1985 and in 1984.

The latest issue of the BES Magazine suggests that fund managers are already finding that the new 50 per cent limit on unencumbered land, building, plant and stock imposed by the 1986 Finance Act "affects many potential investments regardless of the type of business or its location." But the magazine does not lay all the blame for the slowdown on legislation. Among other reasons, it suggests, are that some fund managers are "having to spend their resources in looking after their investee companies. Particularly where companies are moving through growth phases, the fund managers need to provide additional management expertise."

The expansion may well give rise to problems with the complex BES legislation, causing them considerable extra work. This is particularly so with expansion into overseas markets. Modifications to the scheme on research and development, overseas subsidiaries etc, have not been back-dated to apply to earlier funded companies.

The magazine sees this absence of back-dating as an anomaly giving rise to enormous complications for fund managers and it raises the question of why the Government seems "so fixated" against direct retrospective application of any new legislation.

There appears, says the magazine, to be a rumour that the Government is going to put a limit of five for new shares qualifying under the BES for any single company. "This will lead to a lively debate between the small firm lobby groups and those who believe that many BES investors will not support the smaller firms without being able to diversify into less risky investments."

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TECHNOLOGY

Better surroundings bring greater sense of security

Peter Marsh reports on a more efficient way to stop criminals breaking into buildings or breaking out of prisons

GUARDS in charge of prisons and military installations may find their duties less onerous as a result of a new type of security system for detecting whether people are crossing barriers such as fences.

The equipment, a set of wires linked to control boxes, may also have applications in protecting from intruders buildings such as banks or factories. The wires can be buried in brickwork or roofs and are claimed to be sensitive enough to detect vibrations caused by anyone attempting to break in.

Called Guardwire, and produced by Geopip, a company in Wicks, Derbyshire, UK, the system appears to be a major advance on the type of wire-based security installations featuring coaxial cables, which have been available for about 15 years. Here the cable is fitted along the line of the perimeter that is to be protected, attached to a fence for example. Vibrations caused by movement trigger voltage changes, with the cable basically behaving like a microphone which can be analysed electronically to warn of activities like a prisoner scaling a prison fence.

The cable in the new Guardwire system uses a different principle. It is threaded with two strands of ferrite-based material that act as the poles of a permanent magnet. In between the poles are a pair of conductor wires, together with two inductor wires which are free to move in an air gap of about 1 mm.

When the cable moves, the magnetic field induces a current in the inductor wires, which can be processed to indicate exactly what led to the vibration.

False alarms are a problem with all kinds of devices used to protect buildings and other installations. For example, a fence through which a security wire can easily vibrate in the wind, or because a small animal such as a rabbit has bumped into it. Separating such incidents from real alarms can be difficult.

According to Mr Peter Elliot, Geopip's managing director, Guardwire is more sensitive than coaxial equipment, as a result of the lower impedance (effective electrical resistance) of the magnetic system. It also produces fewer spurious signals in the form of electrical "noise."

As a result, screening out false alarms becomes easier.

Geopip's claims for Guardwire have impressed Del Norte, a security systems company in Dallas which has agreed to sell the equipment in the US. According to Mr Bill Lynch, marketing manager at the company, Guardwire is "an advance on anything else available" for fence detection systems.

Chubb Alarms, a leading British security appliances company, is also selling Guardwire on Geopip's behalf. Mr Alan Williams, sales manager, says the system is a definite improvement on coaxial systems, which are sold by companies such as Perimeter Products and Stellar, both of the US. "They (Geopip) have done an incredible job," says Mr Williams.

Guardwire cable is under evaluation at several prisons and military bases in the US. A typical system might encompass 6 km of wire, divided into six zones, each with its own box of electronics to interpret signals from 1 km of cable. The total installation cost would be roughly £15,000, which according to Geopip is similar to the cost of fitting a coaxial system. Geopip has annual sales of



about £500,000 and moved into security systems after initially specialising in instruments to register changes of capacitance in cable. This equipment is used in the oil industry to monitor defects in the wires that carry signals in seismic surveys.

According to Mr Elliot, the total world market for external fence protection hardware adds up to around £5m a year, with coaxial equipment being the most popular system.

Guardwire will also be competing with a range of ever

more ingenious perimeter-protection gadgetry used to ward off intrusions or prison break-outs. Such devices include lengths of pipe buried underground which are filled with fluids. If anyone walks above the pipes, the pressure of the fluid changes by a tiny degree, sounding an alarm. Other systems use microwaves or TV techniques, the latter involving sophisticated pattern recognition software to interpret images and warn whether people are moving through a specific area.

The video software industry presses fast-forward button

IF ALL of the more reliable sources of prediction are correct, the consumer video market in Britain reached a magic moment at the end of 1986. By then, a little over 50 per cent of television households possessed a video cassette recorder (VCR). This relatively new addition of hardware to the inventory of necessary luxuries for the Western family has achieved acceptance in under 10 years—more than 35,000 existed in UK homes in 1977 against the expected 1986 total of 10.3m.

With the exception of Japan, the rest of the world has been slower in reaching such figures. According to Screen Digest's most recent six monthly survey, among developed countries France still trails with a probable VCR penetration of only 22.6 per cent by the end of 1986, and even the US is still well under the 50 per cent figure at about 45 per cent of TV homes.

Japan, the UK and to a lesser extent Australia, West Germany and the Netherlands, have led the introduction of VCRs but other countries are starting to make up lost ground. For example, in 1986 the anticipated annual growth of VCR installations in countries as economically diverse as India and Italy was 57 per cent and 68 per cent respectively—still low in the actual number of video recorders, but trying to catch up fast.

This is singularly good news for the suppliers of prerecorded programmes, which only a few years ago regarded the video market as an irritation rather than an opportunity. Now, however, a feature film can grow more from video sales and rentals than it can at the cinema box office.

Some measure of the size of the market for prerecorded programmes comes with a claim from Walt Disney studies that *Sleeping Beauty*—a film first released 27 years ago—has so far sold in the US nearly 1m video copies at \$29.95 each. In the UK, the video duplicating houses worked round the clock to meet pre-Christmas orders, even having to subcontract to continental duplicators. Market leader Bank Video Services despatched a

record 0.5m videocassettes in September, over double the figure for September 1985.

One problem, however, is that of falling prices. Some prerecorded movies are down to well under £10 in some instances in London's Tottenham Court Road for example, to £4.

The industry is now getting into a slight dilemma over this price decline, the so-called "sell through" quick turnover market. Mr Steve Bernard, managing director of RCA/Columbia Video in the UK, predicts that in 1987 higher pricing for both sale and rental will begin to reappear for lead titles. Indeed, the price of Sylvester Stallone's film *Cobra* has already hit the £50 mark.

What the pre-recorded video industry is doing is still trying to discover what the market will bear, and for which products. Prediction in this strange business follows few of the old

in efforts to tempt consumers to spend more.

This year will see increased consumer demand for camera cassettes recorders (CCRs). The battle lines are sharply drawn between VHS and 8 mm—the rival formats now available. Sony and its 8 mm supporters are about to be challenged more vigorously by the arrival of a generation of VHS CCRs which use CCD (charged couple device) image sensors instead of tubes; this cancels out a technical advantage which the Sony family of 8 mm cameras employed right from the start.

JVC's new CCR, the GR-CR, despite using the larger cassette format of VHS—the de facto standard of world VCRs—is also smaller and lighter than Sony's 8 mm rival. But the latter remains a superbly engineered instrument, even down to the carrying case—whereas JVC's latest has been clumsily put into a difficult-to-open plastic case that appears to have been designed to be user-hostile.

Minor details such as this may govern the outcome of hardware contests, where so often the best product does not always win. In the early competition between video-cassette recorder manufacturers, three non-compatible systems were in the race for consumer acceptance—Sony's Beta and V2000 better than Philips V2000 format. Many technical experts voted both Beta and V2000 better than VHS, but the latter has emerged supreme.

In the CCR battle for consumer hearts, however, JVC has a product which deserves to succeed—if only to preserve sanity in a world of proliferating technical standards. However, it is a product which consumers could reject in favour of 8 mm simply for cosmetic and ergonomic reasons.

For the consumer video business, it exemplifies how marketing skill could become more important than technological brilliance—just as in video programming creative excellence is not enough in the face of clever sales strategies. The consumer is now saturated with choice in both hardware system and programmes and it is the marketing men and the industrial designers who will determine the future.

FILM AND VIDEO

by John Chittlock

WORTH WATCHING



Edited by Geoffrey Charlsh

WORM's eye view of the archives

ALTHOUGH CD-ROM (compact disc read only memory) is attracting much of the limelight in the optical disc arena, a British company, Computer and Aerospace Components (CAC), of Chesham, Surrey, emphasises that in most office applications, the WORM (write once read many times) system is needed to meet accumulative archiving needs.

With WORM, personal computer users can write (or scan) new documents onto a disc. CD-ROM on the other hand contains a single, albeit very large, set of non-updatable information impressed on the disc in a factory.

CAC has already sold its \$4,000 5.25-inch WORM unit to British Petroleum, Unilever, Telephone Rentals, Saudi International Bank, Britain's Channel Four television, and the UK Government's Central Computer and Telecommunications Agency. The CAC device, called Intelligent Archive, is based on a WORM drive made by Information Storage Incorporated (ISI) of Colorado Springs in the US. CAC adds software and, for £7,000, offers a complete document image processing system which addresses both text and images from a personal computer.

CAC's customers are using the 200,000 page per disc, easily-accessed capacity of Intelligent Archive to reduce the amount of office space taken up by paper and make information more readily available to users.

US quick-step to polymer design

TAILORING polymer materials to suit particular applications, such as mechanical, electrical and thermal properties, has usually been a matter of trial and error and can be both time consuming and expensive.

But now, a team at AT & T Bell Laboratories in the US has written a computer model that will predict the properties of a polymer. It is based on such factors as the temperature at various stages of manufacture and the polymer's molecular structure. Furthermore, supplied with the results of a few minutes spent testing the effects of stresses applied at various rates and temperatures, the model can predict the long-term behaviour of the polymer.

Engineering bodies agree to merge

THE PROPOSED union of two major UK professional engineering bodies, the Institution of Electrical Engineers (IEE) and the Institution of Electronic and Radio Engineers (IERE), has been given an overwhelmingly positive vote by both memberships.

The new 100,000-strong body, to be officially formed on October 1, 1987, will be known as the Institution of Electrical Engineers and will be the largest UK chartered engineering body.

The move has been under discussion for three years.

Sears adopts Racal credit card system

SEARS, the UK retailing group, is running 300 Racal credit card authorisation terminals at Selfridges in London and several other of its stores. The Sears' scheme uses an ONV2 financial transaction processing software system from Logica, the UK systems house, running on a fault-tolerant IBM System/38 mainframe computer.

After a customer's card has been "wiped" through the authorisation terminal it is computer-checked (against stolen card lists and credit limits for example). Billing and accounting then takes place and the customer is issued with a sales slip.

The systems within the stores can communicate with each other over the telephone networks provided by both Mercury and British Telecom. The System/38 can also exchange data with the IBM mainframe computer Sears uses in its credit administration system.

A link with shape of things to come

GT Tools, a small Nottingham, UK, company, supplying needles to the plastics industry, is using a Graphitek computer-aided design and manufacturing (CAD/CAM) system with direct connection to a machining centre supplied by Japanese-based Yamazaki Machinery (UK).

Such links are still relatively unusual in the UK, although most of the major CAD/CAM companies offer them. GT Tools says that its system allows it to accept more complicated mould design work cost effectively.

Graphical information about the part for which the mould is to be made usually arrives at GT Tools on a magnetic tape recorded using IGES (initial graphics exchange specification), a widely accepted standard for the exchange of CAD data. The tape is fed to the Graphitek equipment where the mould can be designed round the part.

CONTACTS: CAC, UK, London, 807 0711; Logica, London, 011 9111; Bell Laboratories, US, (201) 504 4057; Yamazaki, UK office, 0905 57034; The IEE, London, 240 1871.

New issue
January 6, 1987

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THE ARTS

Galleries/William Packer

Two out of season gems

This is inevitably as miscellaneous a time of year in the art world as it is elsewhere, with many exhibitions and galleries hung over, as it were, from the holiday, with the new season proper still a week or two away. Not the time at all, perhaps, to catch the general eye with any major new departure or initiative. But there is no gainsaying optimism or perversity, or perhaps the bare exigencies of the timetable, and it so happens that the few weeks before Christmas, enhancements even to London's galleries, which each at another time might have commanded immediate notice.

The earlier of the two was at the Royal College of Art at the very end of November, where the remodelled and extended ground floor of the main tower on Kensington Gore was officially opened at last as the Henry Moore Gallery. It is a manifestly useful space, with plenty of natural light, open and adaptable and even handsome, given that it has been converted rather than designed from scratch. Sculpture suits it particularly well, and for it to be named after the college's best and most distinguished alumnus is no less appropriate than it is obvious.

The inaugural exhibition is indeed of sculpture, an elegant and succinct retrospective of

the work since 1961 of Bryan Kneale, RA, now head of the Sculpture School at the Royal College and the Royal Academy's Professor of Sculpture. The material is for the most part metal of various kinds, worked more by forging judicious castings and assembly than by carving or modelling. In the earlier work especially, there is much of the smith to it, in the way such intractable stuff is twisted and beaten to the artist's purpose. The imagery is ambiguously abstract, for while it remains usually general and unspecific in its reference, it is yet persistently and oddly figurative by association. The ideas which inform so much of the work may be characterised by such ready sculptural generalities as poise and balance, movement, and articulation, real or potential, but the imagination is quick to gloss them by reference to the animal and vegetable worlds: stems and branches, bones and joints.

Kneale openly acknowledges the connection by the most direct of means. He had been a painter before he took to sculpture as his principal medium of expression, and while that later and substantial body of work is in no sense diminished here by comparative familiarity, the greater surprise and pleasure in this show are

to be had in the batch of recent drawings included in it. For the last year or two he has been working from the skeletons of birds, animals and fish on display in the museum, and here he shows about 30 of the larger studies. They are not merely beautiful drawings in themselves, but wonderfully accomplished in ways of seeing, as well as habits of study and analysis we no longer really expect our artists to command. They evince an understanding of form and structure, disciplined and analytical, which can only be called old-fashioned, though in the best sense. For they stand in that honourable tradition of visual curiosity, which takes us back to Stubbs and his striped horse carcases, and beyond to Dürer and Leonardo. The strongest impulse for me is of the skills of three of the higher species, but closest to the sculpture seem the spindly herons and swansong. The show's run has been extended until at least the end of January.

The Toshiba Gallery of the Victoria and Albert Museum was opened by Princess Alexandra in the week before Christmas. The name rightly acknowledges the generosity of the sponsoring corporation—it is not only the eye-catching temporary exercise that calls for enlightened support. The V and A is extraordinarily rich in its holdings of the applied and decorative art of Japan, especially of the Edo period, which lasted up to 1906. The mass of the material was acquired direct by commission and comprehensive purchase in the late 19th century and then by bequests of specialist collections in the early 20th century. But no primary gallery in the museum was ever made available for any adequate display, and no more than about 5 per cent was ever regularly on show.

The new gallery is effectively an integral structure designed by Paul Williams and dropped into room 45, one of the main, high Victorian exhibition halls. Its significance lies not simply in the opportunity it now affords to show, at 15 per cent or so, a healthier fraction of the whole, but in the more coherent and rational representation of the collections. The displays, of course, will be changed from time to time, shifting in emphasis as the range of the material is addressed. But this first display is itself comprehensive enough, set out



Kinomoto for a child, 18th or 19th century

by chronology and category in the quiet and scholarly way of museum orthodoxy. It may be too quiet for some tastes wishing for more obvious entertainment. But even so, it is informed by an unforced didacticism, as all such museum exercises must be, and backed up in this case by an excellent book, *Japanese Art & Design* (V & A, £9.95), edited by Joe Carle, the keeper of the Far Eastern Department, is closely based on these collections and is beautifully illustrated in colour. But the emphasis in the Toshiba Gallery is placed not so much upon exposition and education as such, but properly upon the objects in the showcases, seen as the works of art they are, from the early ceramics and metalwork, the Buddhist sculpture and samurai armour, the furniture of the tea ceremony, the lacquer and porcelain, the woodblock prints and the ravishing kimono, at last to the lacquer and ceramics of the contemporary Japanese craftsmen.

The Cornerhouse in Manchester is not new exactly, but at little more than a year old it is already a major provincial institution. Of its three current exhibitions (all until January 18), two are concerned one way or another with the domestic interior. No Place Like Home is an enjoyable anthology of work by 15 young artists who find their imagery and material quite literally at home, though they can hardly claim the still-life as their discovery. The collective rationale, therefore, is less convincing than the individual works taken simply as painting and sculpture.

The third show, The Oldham Road is of colour photography by Charlie Meehan. He is a deceptively accomplished topographical photographer, for his approach is conspicuously unromantic and detached, and the strength of his work is inclined to show itself only by accretion and comparative display. Back-to-back terraces, new roads, dumps and demolition sites, old factories and corners of new estates, all come together within his impassive, ironical, monococular aesthetic.

Robinson Crusoe/Opéra-Comique, Paris

Ronald Crichton

Robinson Crusoe, one of the most determined assaults on the Opéra-Comique, has returned to the Salle Favart after nearly 30 years. London, meanwhile, has done something to atone for Parisian neglect, with productions at the Opera Centre (twice) and London Festival and a Prom concert performance. The Paris revival, a co-production with the producer Robert Dierzy and others, including John Lanchbery.

The first act, originally a purely musical exposition in the Bristol home of the Crusoe family, with much music and little dialogue, is compressed into a prologue. Bernard Jayde's skeletal set shows a busy street as well as the house. Altogether, Bristol, described in the programme as a "little English port buried, as it should be, in fog," suits its come-uppance and is a little late (with delightful

cut-out jungle scenes by Dayde) is more or less as we know it. On the whole, the production succeeds in blending the disparate opera-buff and opera-comique elements, not so well balanced in Robinson as in *Les Brigands*, now on show at Geneva.

On the intensely physical producer whose visual gags and puns explode all over the stage. If he wasn't blessedly innocent of producer's notions of digging for contemporary parallels, one might be distracted rather than delighted. The standard in Robinson is not as high as in the memorable *Woe of Offshore*, a triple bill he directed at this theatre a few years ago, and the material is not so rich. Yet once again the fun is hilariously swift, and inventive, with hair-trigger timing.

The score, in which Offenbach, after years of writing for a little English port buried, as it should be, in fog, suits its come-uppance and is a little late (with delightful

self go, is in the safe hands of Michel Tabachnick. The title-role needs more than the average light tenor can always give. Gérard Garino has the voice and uses it, but he remains a lay figure. Not for the first time, Man Friday (amazon) comes off best, in a winning disarmingly natural performance by Cynthia Clancy. Danielle Boret is the strong, handsome Edwige.

Marie-Cristine Fort and Christian Papis fill in agreeably as the secondary couple, who have good things to sing. Jim Cooke, Bristol boy turned carnival cook, is rightly done by Michel Trempont, mysteriously sporting a thick Belgian accent and promising, when the visitors have decided who is for the pot, *santorese* for supper. This tropical island bears a choice assembly of wild beasts.

The Opéra has been giving Massenet's *Don Quichotte* in a luxurious staging by Piero Faggioni shared with Venice.

This is a great improvement on the two, folkie production by Ustinov mounted here in 1974. Faggioni, as usual his own designer, uses the same style as his well-remembered *Corvèze*. A solid architectural basic set, in this case a village barn of grand proportions with an inn-galley and wide doors with changing prospects to much different locations, is bedded in dreamy mistiness. As in *Corvèze* a gauze curtain dubs the performers' eyes—I have a private conviction (unsupported so far as I know by science) that it dubs voice and words too.

The result is "beautiful," and since visual pleasure is not all that common in opera today, we may be thankful. Perhaps a little too much of the beauty spills over into Ruggero Raimondi's Quixote? He looks such a fine, noble old gentleman, so almighty and well set up, so little cadaverous, slightly touched but not seriously deranged, that it is hard to understand why

people laugh at him. Raimondi sings with sweet smoothness like a velvet cello, meeting some competition from the Opéra's solo cellist. So wrapped up is Quixote in his dreams that he sometimes forgets to explain them by means of best words. No lack of clarity about Gabriel Bacquier's exemplary Sancho Panza.

The Dulcinea of the efficient, always striking Hanna Schwarz is a shade too hard for Quixote. As Quixote's convincingly showed in the Deca recording, the lady is more thoughtless than brutal. Georges Prétre conducted, skimming lightly through the vocal schemes with which Massenet varies his textures, keeping the occasional orchestral eruptions in proportion. The playing of the fifth act prelude as an overture as well as in the usual place is a mistake. Massenet calculated his effects accurately—hearing this effective but near-the-knuckle page twice is once too many.

At the Aix Festival Jean-Claude Bencherat's reconstruction of a less elevated work, Campra's "tragédie lyrique" *Toradé*, was bolder. With the score in the hands of another period expert, Jean-Claude Malgoire, he helped himself to modern stage-tricks—and psychological detail—without apology, but the production conveyed the pungency of its lowly, alien genre. The words were made to work (for the French audience), and Pencherat tapped the rich French vein of flamboyant gesture—something utterly different from the service of the French audience, and Pencherat tapped the rich French vein of flamboyant gesture—something utterly different from the service of the French audience, and Pencherat tapped the rich French vein of flamboyant gesture—something utterly different from the service of the French audience.

Rossini's early *Toradé* (different chap, different myth) boasted almost as convincing a period style in the Wexford Festival version conducted by Arnold Oestman, which was transported to the South Bank for one night. By many accounts, it gained by having had to leave most of its stage trappings behind; certainly it made one hope for regular

Opera in 1986/David Murray

Producers hit extremes

Serious opera-lovers will put up with a lot, and on balance the opera saw this year prompted no more gritting of teeth than usual. What has to be put up with varies over the years, of course. I should guess that we suffer much less nowadays from ropey little orchestras, inadequate supporting soloists and routine ham acting, more from egregious producers and from the all-purpose singing style that goes with continual international engagements before audiences who don't understand the words.

Whatever the merits of the familiar, doubtful claim that music is an "international language," it isn't true of opera—not so far, anyway, as best there are ways of making it more or less accessible (or at least effective) to foreigners. An opera has a dramatic text, and that text only comes in a specific language but trails a whole dramatic tradition behind it, even when it means to flout it. Only very old persons can still believe that opera is basically set-piece songs separated by recitatives, and the dramatic action a mere prop.

In these multinational days, that's the rub—how to present the action. Operas used always (except in eccentric Britain) to be given in the local language, and since they came in standard theatrical forms—tragedy, comedy, *l'opéra comique*, *l'opéra sérieux*, mythological epic—a standard house-production could (with an established company) be durable for decades. The stage was assumed by the composer needed no translating; very few operas outlasted their composers long enough to become theatrically dated. But now almost the whole repertoire is dated, in that sense (and the charms of pure massive spectacle have faded in the glare of modern entertainment). It is no wonder, then, that producers have moved from backstage anonymity into the limelight. And of course, we get extremes.

One extreme is "authenticity," the impossible but valuable aim of recreating an opera in its original performance-style (impossible because the original audience, at the Barb Festival, and later in London, Roger Norrington's Early Opera Group tried that with Monteverdi's *Orfeo* (possibly the oldest of operas) in keeping with the music movement has made remarkable strides, and the purely musical realisation was brightly persuasive. Monteverdi's rigorous concern with the text was not, however, well matched by the company's sketchy Italian, nor was the general impression of Renaissance performance well filled out by their British decorum (Guy de Maupassant's *Le Chevalier à la Rose* scored much higher on both counts).

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Westford visits from now on. It must have been Ostman's doing on the opera's grander scenes by gift for casting—that a young multinational cast delivered the opera with such feeling and such stylish consistency.

Two Handel revivals deserve recalling. Though he composed in England, Handel's terms are foreign now—partly because they were then: he composed Italian operas for London, founding the English belief that what an opera is about doesn't matter. Teseo is a particularly stately and undramatic example, though beautiful, and the English Bach Festival did it proud. With Solomon at the Proms Trevor Pinnock and the English Concert had an easier task, relieved of stage pretence, but with Felicity Palmer as leading man it glowed.

Our music critics complete their assessments of 1986

At the other extreme is total "rethinking"—staging an opera in wholly unforeseen terms that may somehow recapture the work, at least in its essential impact, or may simply leave it void. I met one pure example this year, but Pierre Strasser's *Idomeneo* for Aix came closest: with vast mirror-glass screens and caustic movement it rendered Mozart's story quite opaque, while boasting the demeanour of grave seriousness. For the Paris Opera Zauberspiele Montepulciano was as relentlessly chic, but a strong cast (prepared by Hottel and Rozdestvensky)—notably Vincent Cole, Danielle Boret and Hakan Sagerd—defied it to make the drama vitally innocent and tenderly human. The *Aix Don Giovanni* had another trendy set, an irrelevant, domineering nuisance, but it also had a spirited male cast (led by the French tenor with great dash by Gino Quilico and the ripe comic Jean-Philippe Lafont).

At the Coliseum David Pountney did wonders with Busoni's *Doctor Faust*, which attaches deeply interesting music to a theatrically deficient libretto. Some Busoni devotees thought the production flashy; it was, but it also displayed marvelous ingenuity in keeping the pieces alive on the stage, to the benefit of the musical public. Thomas Allen and Graham Clark were heroically resourceful as Faust and his wife, respectively. The Coliseum Festival, produced with some careful insight by Joachim Herz amid clumsy sets, depended finally upon faultlessly old-fashioned conducting by Reginald Goodall, serene and nobly paced.

At the Royal Opera another Wagner, *Die Walküre*, survived its new production less well. Mike Ashman's strenuously sincere efforts to detach the opera from its apologetic, romanticism were also detached the action from its Romantic springs; its haunted passion and desperation evaporated in the marine light-industry setting, and neither cast nor conductor had the authority to summon them back. Better at the hands of Livia Cluett, for the Welsh National Opera. Berg's score, still "difficult" is at once defiantly clever and at the service of the music. Buchner's present play, Cluett's visual inventions, evidently well-meant, drew constant attention to themselves, often ran behind or ahead of the music and of the current of the social deprivation into a conventional tract about bourgeois hypocrisy.

Less radical productions attacked much the same balance of hits and misses. Peter Hall's Glyndebourne production of Verdi's *Simon Boccanegra*, very straight, was crippled in the grander scenes by the cramped stage, and there was little compensating detail in his directing of the principals. At Covent Garden Visconti's time-honoured version of *Le Traviata* founded upon wildly injudicious casting, where John Schlesinger's moderately ingenious version of the Offenbach *Hoffman*—less starchy cast than before—recaptured the ambiguous glitter and moral frissons with a fine cast and Charles Dutoit in the pit.

Michael Hampe's soft-grained production of Rossini's *Barbier de Séville* was variously enlivened by Quilico's shamelessly engaging Figaro and the disconcerting turn of Simon Murray's Rosina. Puccini's *Turandot*, more aggressively interpreted by Andrei Serban in the distancing terms of formal Oriental "opera," again took very well to that treatment, which diminishes the sadomasochism Puccini loved without sacrificing the dramatic energy of the fable.

Down the road again at the Coliseum, Graham Vick's idiosyncratic, sober staging of Britten's *King Lear* made the work, at least in its essential impact, or may simply leave it void. I met one pure example this year, but Pierre Strasser's *Idomeneo* for Aix came closest: with vast mirror-glass screens and caustic movement it rendered Mozart's story quite opaque, while boasting the demeanour of grave seriousness. For the Paris Opera Zauberspiele Montepulciano was as relentlessly chic, but a strong cast (prepared by Hottel and Rozdestvensky)—notably Vincent Cole, Danielle Boret and Hakan Sagerd—defied it to make the drama vitally innocent and tenderly human. The *Aix Don Giovanni* had another trendy set, an irrelevant, domineering nuisance, but it also had a spirited male cast (led by the French tenor with great dash by Gino Quilico and the ripe comic Jean-Philippe Lafont).

Non-operative music continued to flourish thickly, if unevenly. All the over-the-hill London orchestras, as well as the BBC and Simon Rattle's City of Birmingham Symphony, offered some performances of distinction; there were also occasional when the London vice of under-rehearsal was undisturbed. Particularly with the London Symphony (phoney). We are losing Abbado to Vienna, sadly, and the prospect of more years of Sinopoli is no consolation. Among younger conductors Simon Rattle stands out for sharp sight and a knack for generating excitement; we could do with another half-dozen of him.

Too many established artists and ensembles turned up trumps to make a feasible list. There were some series of great achievements—the Borodin's Shostakovich quartets, Hermann Frey's Schubert programmes, Mitsuko Uchida's Mozart concertos with the ECO (easier to catalogue new discoveries and unexpected rewards: the music of Mark-Anthony Turnage (featured at Bath), the *recherché* feast at the Almeida Festival, Robert Saxton's new Viola Concerto for Paul Silverthorne at Cheltenham, a triumphant bicentenary celebration of Weber by Norrington and his "Age of Enlightenment" forces. The pianist Craig Sheppard made a brilliant reappearance; Maria João Pires and young Marianne Beate Klier made formidable impressions (if the latter are too many top (if there are too many superlatives) ones; and Gidon Kremer and Andras Schiff did extraordinary things with Bartók's first violin-and-piano sonata.

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Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday, A selective guide to all the Arts appears each Friday.

Opera and Ballet

LONDON

Royal Opera House, Covent Garden: The Royal Ballet continues its performances of *The Nutcracker*.

Royal Festival Hall: London Festival Ballet gives daily performances of *The Nutcracker*.

Sadler's Wells, Barbican Avenue: Sadler's Wells Royal Ballet continues its season with *The Snow Queen*, followed by Coppélia.

VENICE

Stasopoulos: A Summer Night's Dream conducted by Richter; La Bohème conducted by Mackerras with Pirelli, Wise, Druvsky, Horvák, Hahn; Die

Fidelmanns conducted by Nouhold with Ghazarian, Demosch, Lind, (S. 444/26.55).

Volkswagen: Madame Pompadour conducted by Bili; Der Opernball conducted by Boncompagni; Die Fledermaus conducted by Bili. (S. 444/26.55).

NEW YORK

Metropolitan Opera (Opera House): The week features *Figlietto* conducted by Thomas Fulton in John Dexter's production with Mariella Devia, Sherill Milnes, Doro Roffe and Dimitri Kavrakos; *La Bohème* conducted by Julius Rudel in Franco Zeffirelli's production with Leona Mitchell, Barbara Daniels and Brian Schermer; *Die Fledermaus* conducted by Jeffrey Tate.

with Kiri Te Kanawa, Shoshiko Tuganov and Otto Schenk in Otto Schenk's production; and *Madama Butterfly* conducted by Claudio Abbado in Renato Scotti's staging with Miss Scotti, Yvette Moudouze and Leona Mitchell. Lincoln Center (S. 444/26.55).

New York City Ballet (New York State Theatre): Following the final seasonal performances of *The Nutcracker*, the company's 85th season continues with repertoire by Balanchine and Jerome Robbins, including two of last spring's world premieres by Robbins, *Quiet City* and *Piccolo Ballet*. Lincoln Center (S. 444/26.55).

WASHINGTON

Washington Opera (Theatre): The company's season at the Theatre Theatre

features Don Pasquale in a new production by Douglas Wager conducted by John Neschling with Francis Long in the title role, Pamela South as Norina and Greta Wilson as Ernesto. The 1987 English-language production of *The Abduction* from the Seraglio returns conducted by Arnold Oestman with Joyce Guyer as Constanza, David Kuebler as Belmonte and Kenneth Cox as Osmin. Kennedy Center (S. 444/26.55).

CHICAGO

Lytic Opera: Leticia Mancoske's 1981 production of *The Merry Widow* continues with Maria Bering in the title role. Alan Tish as Prince Danilo and Jerry Hadley as Camille de Rossillon, conducted by Baldo Podszus. (S. 444/26.55).

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Please, Please, Please/ICA

Martin Hoyle

Three years ago Théâtre de Complicité's first show, *Put It On Your Head*, struck me as quirky, painstaking, ingenious and utterly amusing, worthy rather than exciting. Since then, the company has played all over the world, won awards galore and become something of a cult. Now at the ICA until January 10, they emerge as more ingenious and polished than ever, but despite the loyal hordes evidently on the same wave-length, to this spectator at least no funnier than before.

That terrible hangover from French mime training, the tendency to exalt strutting and smirking to the level of High Art, is at least giving way to a more English comedy of social incongruities manifested by physical clumsiness. (There is even an unwelcome hint of Norman Wisdom in heady-eyed Simon McBurney's rubber-limbed convulsions.) The final impression of the horribly accented lower middle-class family here depicted—scruffy Mum with hair in curlers, shabby wimp Malcolm and his bashful brother Ken, gormless girlfriend and solid Dad—is of Mike Leigh territory observed through the distorting vision of Gerald Scarle. The effect is deeply patronising.

The performers are effortlessly accomplished. They provide the noise of creaking doors, loose floorboards and sliding sash windows. On opening an

invisible door they recoil and stagger before a sound effects gale. The comedy ranges from a couple's attempted lovemaking—sheer physical humour—through a registry office marriage of Glum-like cluelessness to wallflower Malcolm's frenzied attempts to get his parents' attention by banging the turnstile, pouring tea over Mum and slashing them with a knife as they gabble on regardless.

The two women, Celia Gore Booth and Linda Kerr Scott, are genuine drols, the one aggressively arm-jawed, the other a clay put-upon figure whose gibbering has the lift of Caledon about it. The company has evolved the piece itself. Anabel Arden directs. Lucy Waller's design boasts beds, kitchen furniture, a table and a back-ground of washing hanging up which expands to provide the evening's most potent theatrical image. The sound of a howling tempest accompanies the billowing of a vast groundsheet (the front row's heads are panned into this) and the world turns white and cold. Otherwise the blend of slapstick, social observation and hints of unease seems not entirely set.

The abbreviated version of my report on the Manchester Royal Exchange's Country Wife omitted the name of the director, Nicholas Hytner, besides the noise of Jeremy Sams, as spikily sombre, stylish and menacing as punk itself.

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Tuesday January 6 1987

South African elections

PRESIDENT P. W. Botha has decided that in the next few months he will put his party's popularity to the test of the general election, confined to the country's white voters.

The circumstances are inauspicious. Violence in the country, which has cost 2,250 lives since October 1984, has become endemic. Harsh press censorship conceals much of the unrest from the world, and saps the opposition parties, both right and left. The outcome is likely to be a comfortable victory for the ruling National Party but it will be a hollow achievement, for it is unlikely that Mr Botha will emerge with a mandate for anything other than defence.

There are no grounds for believing that Mr Botha, armed with an endorsement from the white voters, will use it as the basis for reviving the reform process. Since May last year, when he sabotaged the Commonwealth's efforts to initiate talks between black leaders and the government by attacking alleged African National Congress (ANC) bases in neighbouring states, the President has been assuaging the fears of the extreme right wing.

The purpose of the election, it seems, is to consolidate National Party power and to heal the rift in Afrikanerdom created by Mr Botha's early cautious reforms. He also may be seeking to defuse expectations among black South Africans that the end of white rule is imminent.

Vision unclear

Mr Botha's vision appears to be evolutionary change, over a period measured in years rather than a few years. The timescale is unrealistic and the vision unclear. The election and the circumstances surrounding it reflect Mr Botha's misreading of the South African crisis. It was the constitution itself, endorsed by two thirds of the white voters in 1983 and introduced the following year, which contributed to a mood of growing despair among blacks. This soon turned into the most sustained onslaught the National Party has encountered since it came to power in 1948.

Wooing the small investor

THE CASE for wider share ownership is usually presented in broad political and economic terms; giving people a stake in the society they live in is said to be a laudable aim which encourages responsible behaviour and undermines "them and us" attitudes in industry and commerce.

Interestingly, the Chancellor of the Exchequer, Mr Nigel Lawson, chose in his New Year interview with the Financial Times to add a new dimension to the economic case. The British Government's privatisation programme has been suggested, demonstrated, at the cost of a certain amount of advertising, that many small investors could be persuaded to buy into companies that were household names. This, said Mr Lawson, could reduce the pressure on management to show short-term results because such pressures usually came from financial institutions like the pension funds. The Chancellor went on to suggest that the Stock Exchange might care to change its rules to make it easier for quoted companies to offer their shares directly to new shareholders when raising fresh capital.

Popular capitalism

Those who believe stock markets respond relatively efficiently to information about quoted companies will no doubt question whether share prices will be any less prone to volatile swings if more shares are in stable hands; some might well argue that the resulting reduction in turnover and liquidity would lead to more volatility, not less. But the Chancellor's argument may well strike a chord with those company directors who fear a narrow concentration of institutional shareholdings makes them more vulnerable to a hostile bid. Certainly small shareholders have proved themselves less likely to back the predator in contested takeovers.

That said, the expenses a company would incur in making a secondary offer to small investors would be a formidable deterrent. Unlike the Government, quoted companies are unable to offer substantial inducements or run up huge advertising bills in order to promote the wider

country's Coloured and Indian community shared much of the disillusionment. Less than 30 per cent of the two communities were prepared to vote in the 1984 elections, supporting the Coloured leader, Rev Allan Hendrickse, and the Indian politician, Mr Amichand Rajbansi, who argued that working within a deeply flawed system would hasten the end of apartheid.

Botha warned

This week Mr Hendrickse warned Mr Botha that his party was prepared to pull out of parliament unless the cornerstones of apartheid, including the group areas act which provided for residential segregation, were abolished. The president thus enters the election with his constitutional excuse in disarray. There is no evidence that he has anything to put in its place. No black leader of any status has indicated a willingness to take part in the proposed National Council, supposed to provide a forum for the exchange of views on political change. Chief Gatsha Buthelezi's proposals for a multiracial local government in the joint province of Natal and Kwa Zulu, although still under consideration by the government, were immediately rebuffed by a senior cabinet minister.

Whatever legitimacy Mr Botha may establish for himself in the eyes of the white electorate, to the outside world little is likely to have been changed by the election. It is too probable that, in the coming months, the sanctions campaign in the front line states will gather force. There is a danger that the National Party, flushed by its likely victory at the polls, may retaliate. South Africa's ports and railways carry much of southern Africa's trade.

The front line states, members of the Southern Africa Development Co-ordination Conference (SADCC), are aware of their vulnerability and have been speeding up efforts to rehabilitate the existing alternative routes through Mozambique. Without such alternatives the potential for disruption in the region is enormous. Limited support has already been given by the West to the rehabilitation programme carried out under SADCC's auspices, but the projects deserve greater backing if the consequences of a potentially disastrous "transport war" are to be averted.

Interest of popular capitalism. Even if they were able to contemplate raising capital in this way at an acceptable cost, they would almost certainly raise eyebrows among their existing institutional shareholders.

The Stock Exchange rules are not the only obstacle to an issue of shares direct to new shareholders. The 1985 Companies Act enshrines the principle of pre-emption, which requires companies to give existing shareholders a right to take up new shares in proportion to their stake in the company. Both the Act and the Stock Exchange listing agreement permit the principle to be waived, in different ways, only if shareholders sanction the move.

This is easier said than done because the investment institutions are reluctant to see their stake in a company diluted by an issue that is offered direct to outsiders. They have been prepared to tolerate a recent relaxation of the Stock Exchange rules on the basis that the new capital represents a small percentage of the capital in issue. The institutions' opposition to so-called "bought" shares where a single securities firm buys all the shares on offer and distributes them direct to its clients, has in some cases been muted because the discount on bought deals is small. Given the difficulty of distributing shares to small investors, as opposed to the big institutions that snap up shares offered in a bought deal, the shares would probably have to be sold at a sizeable discount to the market price—which is another way of saying that existing shareholders would be paying a sizeable subsidy to the small investors.

Share ownership

That suggests the Chancellor will not have his way without a fight. It could also be argued that the key to extending private share ownership lies more in changes to the tax system and in educating people in how to deal in secondary markets than in tempting them with new issues. And if the British Telecom share register is any guide, the Chancellor's view of the small shareholder is somewhat romantic. With each new set of figures, the number who have sold rises inexorably.

ON DECEMBER 16, a meeting of the Communist Party of the Soviet Republic of Kazakhstan, in the city of Alma Ata, decided to retire Mr Dimnikhamed Kunayev, leader since 1964 and a long serving member of the ruling Politburo, and replace him with Mr Gennady Kolbin, a Russian.

The retirement of Mr Kunayev, an old guard supporter of the former Soviet leader Mr Leonid Brezhnev, had been expected. It is what happened next which caused astonishment in the rest of the Soviet Union.

Soon after news of the party decision spread through Alma Ata, a city of 1m and the capital of the republic, Kazakh students began to riot in protest against the replacement of Mr Kunayev, a Kazakh, by a Russian.

Even more surprisingly, the riots were immediately reported by the Soviet news agency Tass, in keeping with the policy of greater openness introduced by Mr Mikhail Gorbachev. This is the first time that immediate publicity has been given to such a sensitive subject as violence between two Soviet nationalities.

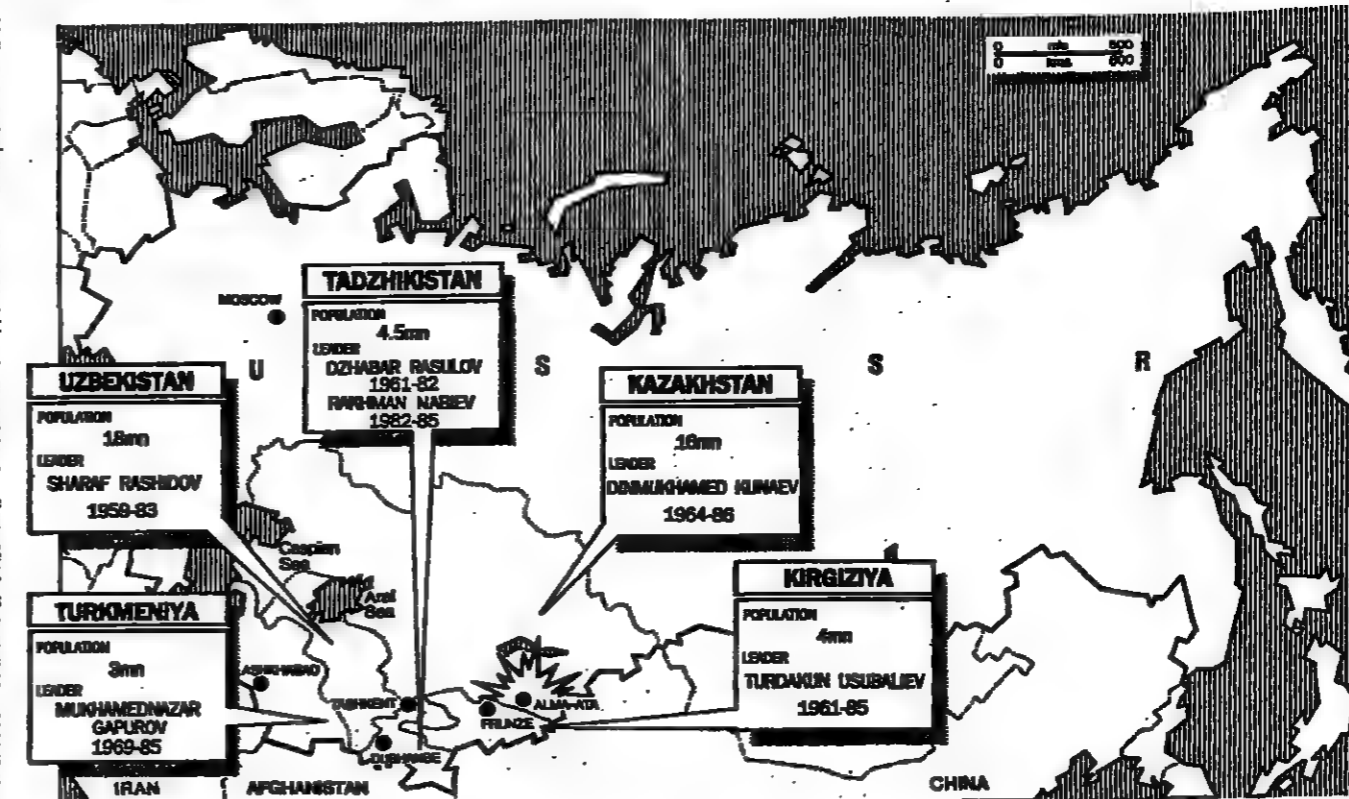
Egged on by nationalist elements and joined by what Tass described as "hooligans and parasites," the students attacked the police, burned down a food shop and shouted insults. Some police and rioters were seriously injured, according to unofficial reports, and a member of the Politburo was sent to investigate the unrest.

After the first admission of rioting, information has been scanty, but it is evident that the riot had an anti-Russian motive. This is surprising since Kazakhstan, a region four times the size of Texas stretching from the Caspian Sea, has more Russians than Kazakhs among its 11m population. In Alma Ata, a pleasant city whose streets are lined with Lombardy poplars and oaks, Russians are in the overwhelming majority.

It is already clear, however, that the riots in Alma Ata are only the latest episode in a series of dramatic events which in the past four years, have led to sweeping changes throughout the five Soviet Central Asian republics (with a total population of 46m). Moscow has sacked four of the Communist Party leaders of the republics and fear of a similar fate may have led to the sudden death, possibly through suicide, of the fifth.

Mr Kunayev first became leader of Kazakhstan in 1960, was briefly demoted by Mr Nikita Khrushchev, and then restored in 1964 by Mr Brezhnev. The last of the five to go, his departure appears to end the clean sweep which began in 1983 when Mr Sharaf Rashidov, ruler of Uzbekistan for 24 years and a non-voting member of Moscow Politburo for 22, died suddenly, just before the exposure of a swindle which had systematically exaggerated cotton production by up to 900,000 tonnes a year.

The purge, accompanied by accounts of political and economic corruption and a grant scheme, is the result of three trends in Soviet politics over the past



four years: a purge of leaders appointed or supported by Mr Brezhnev; a regionalisation of central authority over the local party apparatus and more careful control by Moscow of government spending and the return on investment.

These trends have had the greatest impact in Central Asia because the region has the same political relationship to Moscow as the American Deep South to Washington. Local leaders of great longevity have built up political machines dependent on patronage and their ability to extract funds from the centre. "Self-styled noblemen with party tickets infiltrated the leading posts on a large scale and built up a personality cult around the local leader," confessed the local party newspaper in Uzbekistan.

It is Moscow's attack on these great baronies, and the breakdown of the political machines which supported them, which has been the force for change, rather than a sudden upsurge in local nationalism or Islamic fundamentalism. The scene of the rise and fall of the great houses of Soviet Central Asia is the area bordered to the north by Siberia and to the south by Iran and Afghanistan. Conquered by the Russian Tsars in the 19th century, the new Communist government in the 1920s split the region into five republics, each with a different ethnic mix.

Although the area originally taken by the Russians was the steppe, the new republics quickly moved south along new railways to found cities and plough up grazing lands. The result is a mosaic of nationalities and an ethnically mixed area. Ethnic Kazakhs are only 35 per cent of the

population of the republic. Uzbekistan is more homogeneous, but Uzbeks form only a bare majority of the 2m population of the capital Tashkent. Industry developed under Stalin and in the 1950s Mr Khrushchev started his campaign to plough up the Virgin Lands of north Kazakhstan in a bid to boost Soviet grain production. Oil and gas were discovered. Investment was poured

the rest of the country. Turkmenia receives 300 days' sunlight a year and sees the first signs of spring in February.

One result of the warm climate is that in Soviet history almost all the Soviet Union's cotton crop, which totalled nearly 8m tonnes this year, there was heavy investment in irrigation and cotton production figures were taken in Moscow as the barometer for

In Uzbekistan, where two thirds of the Soviet cotton crop is grown, the difficulties in increasing output led to the greatest swindle in Soviet history, details of which came out in a trial just ended. Between 1978 and 1983, it emerged that no less than 4.5m tonnes of raw cotton were counted up by Mr Vakhobzhan Usmanov, Uzbekistan cotton industry minister. Hundreds of millions of rubles were paid by Moscow for cotton which never existed. He was able to carry out the swindle by a system of bribery. Children were once kept in the cotton fields when all the cotton was picked to give the impression that the harvest was continuing.

Mr Usmanov, sentenced to death, was arrested in 1984. Before then he had ceased even to open envelopes containing bribes which were handed to him in his office. He tossed one envelope containing 40,000 rubles (\$40,000) into a corner of his office, where the police found it lying unopened two years later. The cotton fraud showed that the local party machine was saturated with corruption. It also undermined the "central" and local leaders in the last years of Mr Brezhnev refused to believe that the boom years in Central Asia were over. They still thought big investment in its resources would produce massive returns. Just before he died, possibly by his own hand, Mr Rashidov was close to getting Moscow to agree to an enormous investment in a canal to bring water from the north-flowing Siberian rivers to irrigate the cotton fields and orchards of Central Asia.

With the death of Mr Brezhnev in 1982, the party leaders in Moscow started a sustained campaign to retrieve

the economic and political health of the region.

The problem for the leaders of the republics who had risen to power during the boom years of the 1950s and 1960s was that, from the mid-seventies, cotton production was not rising. There were limits to the amount of land and water available. Irrigation without drainage led to a build-up of salt. Many fields which were quite fruitful at first are empty today and look as if they are covered in snow, but in fact it is salt, wrote Pravda.

Dimnikhamed Kunayev, leader of Kazakhstan from 1960 apart from a brief demotion. His departure in December ended a cleanout which started just before the exposure of the greatest swindle in Soviet history

in by Moscow to exploit Central Asia's resources of raw materials, labour and land. The result was a surge in growth, which raised the standard of living of Soviet Central Asia well above that of its neighbours. The capitals of the five republics look better built than much of Moscow.

Some of the reasons for the rapid development are obvious. The area is the Soviet Union's sunbelt. The Central Asian plateau can be freezing cold at this time of year, but the winter is much shorter than in

the economic and political health of the region.

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Lacy takes

Exco chair

At a time when City men seem to be able to make fame and fortunes almost overnight the career of Richard Lacy, newly-appointed chairman of Exco International, the money broking group, appears a model of dedication.

Though still only 39, Lacy has spent all but one year of his working life with Exco and with its predecessor company Astley and Pearce. After leaving school and spending a year with a City shipbroker, he joined Astley as a trainee broker and tea-maker in the mid-1960s.

He stayed with the company through its transformation under John Gumm into Exco and has emerged as top dog following this month's acquisition of Exco by British and Commonwealth Holdings, the financial services group which Gumm now heads.

Eight other directors, including John Sangster, Lacy's predecessor (though non-executive) as chairman, and Bill Matthews, the chief executive, left last month as a result of the B and C takeover.

Lacy spent several years in

Men and Matters

the mid-1970s building up Exco. For Exco operations, Lacy has now wants to extend further—but most recently has been in charge of its money broking operations.

He recently underwent a tonsil operation for an illness which dogged him for the previous three years but says he is now perfectly fit. When he spoke to him yesterday he had just completed an energetic day's skiing on the slopes of Champery, Switzerland.

How will he overcome the Gumm factor, whereby the City appears to assume that Gumm personally runs every company with which B and C is associated?

"Exco has been given all the assurances that it will stand alone within B and C," he said. "None of us have any fears he will try and run this company. He is too busy with other things anyway."

High life

The Japanese may have got rich by making cars, cameras and computers more cheaply than other countries—but Japan is now the world's most expensive place to live.

A survey by Employment Conditions, an advisory service for companies with expatriate employees, says the strength of the yen has helped to boost Japan to the top of the cost of living league.

But it does not always follow that the cost of living is more expensive in the wealthier countries. Companies seeking to keep their expenses down would do well to note that Nigeria, Algeria, Iraq and Tanzania occupy the four highest places in the league after Japan.

Britain is now one of the least costly countries to live in. The fall in the value of sterling over

the past six years has brought the country down from 47th place to 60th. Living costs on the other hand, have risen in the US which now ranks 39th compared with 65th in 1980.

The biggest jump in expenses was recorded in Argentina where it is calculated the cost of living rose by 324.130 per cent between 1980-86. But this has been offset by a fall in the value of the peso and the country, once one of the most costly places to set up home, now ranks 44th.

Legal reading

Increasing competition in the legal profession in Britain is spilling over into the world of publishing.

Come the spring lawyers are going to have two fortnightly magazines to chronicle the rapid changes in their world.

It was announced yesterday that Mayfield Publishing is planning to launch a glossy magazine called Lawyer with a format similar to Cosmopolitan, the ad man's bible, in March.

Now Marcel Berlins, the former legal correspondent of the Times, tells me he is the newly-appointed editor of Law Magazine, a rival to Lawyer, to be published fortnightly by Sweet and Maxwell, the legal publishers.

Berlins says he hopes the appeal of his magazine will be broader than that of his rival. He says: "We are going to appeal not just to people in the law, but also to those on the fringes of the law such as members of parliament, and the City. We'll be more a magazine than a trade journal," he promises.

With the established New Law Journal expected to fight back to try to protect its readership, legal circulation wars are clearly about to start.

Sports promotion

Raymond Levy, the new man in charge of Renault, has just shown a bit of good sportsmanship by promoting to a top management post the man who could have had a hand in Levy's own fall from the chair of the French State Unions steel group a few years ago.

In one of his first decisions since he took over at Renault, Levy agreed to name Louis Schweitzer as deputy planning director. Schweitzer will take charge of Renault's planning department next August when Stephane Doblin, the current planning director, retires.

Schweitzer joined Renault last May as a glittering recruit to the executive suite. With two famous great-uncles—one the Nobel Peace Prize Winner Dr Albert Schweitzer, the other the well-known conductor Charles Munch—Schweitzer had previously been the chef de cabinet or closest adviser of Laurent Fabius, the former Socialist Prime Minister.

In his role as "eminence grise" to Fabius, Schweitzer clearly could have played a part in the Socialist government's decision not to renew Levy's mandate as chairman of Usinor. Indeed, after the assassination of George Besse, late chairman of the French car group, by leaving terrorists last November, and the appointment by the conservative government of Levy a month later, there was some uncertainty about Schweitzer's future at Renault.

But Levy, who left the Belgian steel group, Cockerill-Sambre, to take over at Renault, has waited little time in confirming Schweitzer in his new career.

New miracle

A way has been found to get rid of all that Austrian wine laced with antifreeze. Fourteen of the bound roads it clears them.

The Austrians must be the first people to be glad to turn wine into water.

Observer

RIOTS IN SOVIET CENTRAL ASIA

Backlash as the barons fall

By Patrick Cockburn

economic control for the centre and to break political machines, often dominated by extended families, which had flourished for 20 years.

Cuts have gone deep. Two-thirds of Mr Kunayev's Kazakh party central committee were removed last February. In Uzbekistan, 10 of the 13 party first secretaries, who effectively rule each province, have been fired. The new party leader in Kirgizia says that in the last five years between 82 and 87 per cent of local party leaders were sacked.

The replacement of this number of officials is clearly causing serious problems. In the past the local leader usually came from the indigenous nationality and his deputy was a Slav. Over the last three years, men like Mr Gennady Kolbin, the new Russian leader of Kazakhstan, are suddenly being parachuted in to reassert central control but—as the riots in Alma Ata show—at the cost of local resentment.

It is difficult to judge how costly Soviet reports of the Alma Ata riots hint darkly at the students being the cats paws of the Kunayev regime. But the violence confirms other evidence of growing self-assertiveness among Kazakhs, Uzbeks and other local nationalities.

Local people say there is greater attendance at Mosques and prayer meetings. More people abide by the month-long Muslim fast of Ramadan—catering companies complain of an increasing loss of business, during this period. There is more press and party criticism of failure of local authorities to combat the growth of religion. Increased education, as elsewhere in the Middle East, has led to greater consciousness of national differences.

A good indicator of relations between nationalities is intermarriage—the rate of marriages between Russians and Uzbeks fell in the 1970s.

Not only is the indigenous population better educated, but its high birth rate (average family size in Russia is 3.3 compared to 6.0 in Tadzhikistan and 5.8 in Uzbekistan) means that Russians are a falling proportion of the population. This, rather than the Islamic revivalism and native dress is increasingly seen in the other capitals.

But signs of Islamic revivalism are still few and the border with Iran is sealed tight. All but one of the five republics speak Turkic languages and adhere to the Sunni branch of Islam, rather than the Shia Muslim faith of Ayatollah Khomeini. Facilities for Islamic devotion are somewhat limited with only four Mosques for the 3m inhabitants of Turkmenia.

Fears of Iran or nationalist revolt have not, in any case, been Moscow's main concern during its attack on the political bosses of Central Asia. The Alma Ata riots do show, however, that tightening central control can produce a backlash among an educated and urban native population, increasingly conscious of its national and religious identity.

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Letters to the Editor

Free market fantasising on trade policy

From Mr H. Shatt.

Sir—Mr McGregor is absolutely right (December 29) to condemn the free market fantasising which is still the basis of too many policy pronouncements on trade, although as he concedes—albeit in a wholly unhelpful way—the British Government subsidising exporters (if on a smaller scale than he would like). His letter is also eloquent testimony, which economists would do well to take seriously, to the contempt into which the discipline of economics has been brought by the increasing failure of its practitioners to relate theory to the real world.

Mr McGregor's own prescription, however, for simultaneously doing the problems of the Third World and of Britain's export industries

seems at best somewhat naive. Can he really believe that an intensification of the subsidy-based trade war will be any less likely to end in mutual throat-cutting than the tariff war of the 1930s? Or that "engineers and managers" could miraculously improve on the (admittedly disastrous) record of economists and bankers in determining investment priorities for developing countries which are consistent with long-term viability and national solvency? As for excluding political intervention, this notion would surely raise more than a smile from those Third World officials who are increasingly given the impression by government and business leaders from the industrialised nations that the central purpose of foreign aid is to sustain

employment in the donor countries. The truth is that the world economic crisis, of which the chaos in trade is but one symptom, cannot be resolved until it is openly recognised that (a) virtually every sector and subsector of the international economy is affected by significant, and in many cases growing, overcapacity which can no longer (if it ever could) be eliminated by the artificial stimulation of demand, and (b) it is in nobody's interest to solve this problem by the application of free market principles—for all the admonitions of mainstream economists, so justly ridiculed by Mr McGregor. Such a recognition would, of course, imply acceptance of the need to introduce a degree of concerted planning

into the international organisation of both production and trade. It is the unwillingness of politicians of all parties—not only in Britain but in most other OECD countries—to contemplate such an approach which is the principal obstacle to progress. Mr Gorbachev, we are told, is seeking to take a leaf out of the west's book in subjecting the Soviet economy to more decentralised management in pursuit of greater flexibility and efficiency. Perhaps we might ask ourselves whether we could not profitably return the compliment by abandoning some laissez faire shibboleths concerning trade. Or are we after all more brainwashed than the Russians? Harry Shatt. The Grange, Holbein, Horsham, Sussex.

By Alan Cane

Beyond the crisis, a hefty programme

THE technological crisis which muffled the City's Big Bang seems to be over. A trickle of interruptions to the Seag market information service, the last just before Christmas, is the only reminder.

But there is little prospect of relief for the army of programmers, systems analysts and operators working for the Stock Exchange's information systems division.

An electronic crystal ball in their Christopher Street headquarters, east of the City, would show a relentless programme of work stretching through 1987 and beyond as the Exchange strives to provide refinements ruled out by the Big Bang schedule.

The topic system, which turns Seag information into viewdata pages, has to be strengthened and given more power. Seag International, the information system for international market makers, has to be improved and brought up to world class.

The dealer's workstation, Orbit, whose design owes much to collaboration with IBM and Sherron Leashman, has to be smaller. And the Exchange has to honour its promise to introduce advanced trading systems for automatic small order execution (Sachs) and block exposure (Blon).

Now the market has recovered from the initial shock of Big Bang and the immediate aftermath, it is beginning to look at Seag with a critical eye and ask for more speed, more detail, more information, more facilities.

Most broker/dealers in equities find Seag's acceptable ending vehicle and shoring off its occasional tantrums. It was off the air for 15 minutes on two successive days in late December and the market hardly noticed.

Trading over the telephone went on as usual. The dealers well able to cope with the occasional, minor irritation. As Mr Anthony Lewis, chairman of Smith New Court, puts it: "Technically, we know the shortcomings in the system."

Some market makers, Warburg is a good example, have expressed satisfaction with Seag from the beginning and been prepared to cope with its occasional irritations. Others have come to terms with Seag after a difficult period.

Mr Matt Devereux, head of management services at the leading market maker Barclays de Zoete Wedd, which had more than its share of teething problems, is now happy with the service. "The system seems to have stabilised. The problems always sounded a lot worse than they really were and things have gone better than we could have expected," he says, echoing the feelings of most of the larger market-makers.

A major fear for the Exchange had always been that the market would pay lip service to Seag, with market makers showing the smallest allowable parcel of shares—1,000—in which they were prepared to deal on the screen, while the real market would take place on the telephone. To register as a market maker in alpha securities, the most traded shares, a dealer must commit himself to a firm two-way price on Seag for at least 1,000 shares.

The fear was that the real price for larger share parcels would be quite different—in

maker in an alpha stock, and so escape stamp duty, simply by committing to deal in sizes of 1,000. The minimum size for seven exposures in an alpha stock should be 25,000, he says.

But reasonable contentment with the technological side of Seag in the equities market is not reflected among gilt traders.

Many believe that Seag is of little or no use to them, although they say they would like to see the service improved for smaller brokers and institutional investors.

Gilt dealers trade with each other in anonymity via inter-dealer brokers (IDBs). The best gilt dealing rooms these days are distinguished by a panoply of screens in front of each trader, each displaying the prices from a single IDB. They are two-way prices, compared with the single, mid-price shown on Topic screens.

With such a wealth of market data in front of them, it is scarcely surprising that they see little need for slow, meagre Seag information.

Mr Keith Corby, a trader with the leading gilt dealer Alexander Leighton and Cruikshank, gives a typical reaction: "I have never used the Topic screen to deal."

Others are more outspoken. "Seag and Topic have no relevance to the professional gilt market whatsoever," is one view. Another is: "There is little information there that is timely or worth looking at."

Complaints from the gilt dealers seem to fall into three categories. First, the mid-price display is no use for dealing and is of limited value to clients. They would prefer to see two-way (bid and offer) prices displayed.

Second, updating of prices is too slow. This is a common complaint and seems to result from the measures the Exchange had to put in place to keep Topic on the air after the initial failure.

Third, the amount of information on the screens leaves much to be desired. Mr Peter Sowray, head of technology at Phillips and Drew Moultsdale, argues that displaying a single stock per page is inadequate; up to 20 stocks on a page would be more useful. He says a gilt

equivalent of the FTSE "trigger" page, which shows at a glance how the top 100 equities are performing, would be closer to the mark.

As the immediate worries surrounding the introduction of new technology have receded, it is clear that firms are beginning to find fault with the basic design of the market information system, a luxury denied them in those hectic few weeks at the end of October.

Screen design seems to be a big concern. Equities broker/dealers say they would like to be able to compare more than one stock on the same page. Some criticise screen layout and say that the use of colour is confusing.

And there are still murmurs of discontent about the speed of the system and the best way to get information to clients.

The answer, some feel, is to invest heavily in equipment to make the best use of Topicline and Marketline, the two Stock Exchange services which feed raw data into a trader's computer system to be processed in whatever way he or she wishes.

Phillips and Drew, for example, is taking raw Seag data into its inhouse computer and feeding it out to clients over its Gemini information system.

Others are thinking about Reuters and other information vendors. "Every day I am approached aggressively by information vendors," one said, "and I think 'Why not?'"

A major fear was that the market would pay lip service only to Seag



Rattling the poor box

From Mr R. Jamieson.

Sir—I cannot let pass your distinguished opera critic Max Lippert (December 31) using his yearly review to raise the poor box for the Arts Council. It is his caravan of apologetics are now obliged by a fair and prudent budget to come up with some creative thoughts on arts funding. Instead, they have resorted to the theatrical device of the "poor box" word: more. It should never be an obligation on taxpayers to provide more without question, particularly should they choose not to attend such critically rubricated Covent Garden productions as *Fidelio* or *The Flying Dutchman*. Why does the Royal Opera House deserve more when even its chairman in this year's annual report has to appeal to audiences to donate from "boots"? The Arts Council, as a national and regional opera is similar to that faced by restaurants from Bernal Inns to the Savoy: it is about putting bums on seats at a price the targeted marketplace will pay and with some necessary regard to the quality of product and service that will encourage customers to return.

What is now needed, is a radical privatisation of the arts. The Arts Council, imposed to adjudicate on the market, should be wound up. Cash should be provided on a pound for pound basis to match that

which the public and the business community chooses to pay and provide by sponsorship. It is a telling pointer that UK private sponsorship for the Royal Opera fell last year.

Far from denying avant garde productions, look at what Northwest Holst has done for the ENO, or Amoco made possible in bringing the Welsh National Ring to London. Such support should be offsettable against income and corporation tax, together with the equivalent of the Government contribution, and the cash available for the business sponsorship scheme be raised to the equivalent sheltered to the business. Arts Council Libraries should also be privatised and charges introduced. Quite why they provide poor records and crime novels charged on the public purse as "artistic" is beyond me. It should be well removed from the funding—duty—of public libraries.

We need to encourage the vitality of market-related sponsorship by radical measures that allow can give the successful companies such as the English and Welsh National Operas the security and support they need to flourish. Equally, why should there be an increasing public subvention of failure?

Bill Jamieson, 146 Morris Road, Sharnbrook, Bedfordshire.

Importance of maintenance

From Dr M. Cross.

Sir—Harry Heap (December 20) raises an issue of national importance under the general heading of "maintenance," and his suggestion for "Plant Efficiency Year" should be considered seriously by senior officials at Department of Trade and Industry and the National Economic Development Office. Over the past five years we have been witnessing the management and manning of maintenance in 121 companies. Almost without exception we are seeing attempts to minimise rather than optimise maintenance costs, and also to consider it almost independently of production unit costs. At the same time we are seeing the increased use of contractors (non-core workers) to use the Institute of Maintenance Studies (IOMS) to increase the proportion of variable costs in the maintenance budget. What is starting to emerge from this last development is an increased, and in some cases an over-dependence on contractors. In terms of costs, they have increased. Hence, the

"over use" of contractors can have the reverse effect of that desired.

A second long term issue which is also emerging is the waste of the learning of better plant design through maintenance. Because of the poor information base within many maintenance functions, the development of more reliable, more serviceable and more efficient plant is being lost. It is very noticeable that those organisations which do capture and use such information have lower production unit costs than their major UK and European competitors.

There are therefore very good arguments of which the above are but two, for launching a major awareness-raising programme under the banner of "Plant Efficiency Year." Such an initiative would complement the technology awareness and application schemes with a technology usage scheme.

(Dr) Michael Cross, Technical Change Centre, 114 Cromwell Road SW7

The problems of shipping and shipbuilding

From Mr K. Thomas.

Sir—Your shipping correspondent is too kind (December 12 1986) in saying that the problems of the shipping and shipbuilding industries are not the result of their irrational actions. In the twenty years or so before 1974 reasonably steady growth in world trade had allowed growth in the world shipowning and shipbuilding industries. Japanese shipbuilders had invested in a pattern for building the ever larger tankers and bulk carriers whose economies of scale, after emulation in the liner sector, led to reductions in the cost of sea transport which fed back into more trade growth. Towards the end of this period, shipowners began to order not just ever larger ships, but ever increasing numbers of them. In 1974, the order book for tankers amounted to no less than 91 per cent of the then existing fleet of these vessels whose for combination carriers and dry bulk ships amounted to 77 per cent each.

Euphoric overordering on this scale may be understandable but it cannot be described as rational. Those order books would inevitably have led to overcapacity in the tanker and dry bulk sectors. The unforeseeable triggering of the oil price weapon by Middle East oil producers in 1973/1974 led to the downturn in world trade which has exacerbated and prolonged a slump which was coming from foreseeable causes anyway.

The scale of overinvestment in the few years prior to 1974 was made possible by the ease with which shipowners could obtain bank and suppliers' credit. Loan finance has destroyed the industry's equity base and damaged its ability to withstand a slump which is in part of its own making.

The prices which have had to be financed were unrealistically low as shipyards with government support to win orders to keep people employed. For the last ten years and more, shipping investment has not been

based on market prices. Low prices and cheap finance, in spite of the hardening of some banks' attitudes, continue even today. A few months ago we sought prices for a number of very similar ships. The cheapest price offered was 47 per cent of the highest. Financing terms offered in the packages embodied periods varying from 10 to 25 years; and three suggested interest rates of 4 per cent or less.

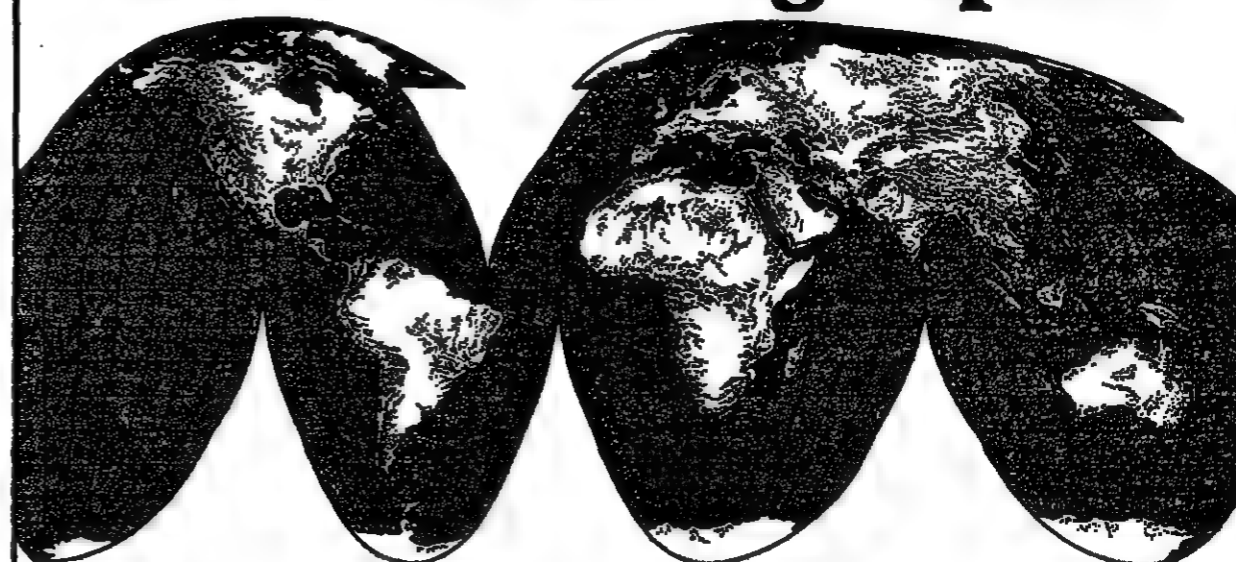
The boundaries of the system within which investment decisions are taken on ships has changed. The extraneous factors of below market pricing by builders and easy financing have come to dominate over straight supply/demand factors. The problem is that amongst the many individual shipowners, particular projects, such as US Lines' giant round the world containerhips now protected from bankruptcy proceedings, can still be dressed up to appear profitable. If these projects were to be appraised from the point of view of the health of the

industry very few of them would be realised.

The shipbuilding industry has always had an endemic tendency to overinvest. As long as cheap ships and finance for them to continue to exaggerate this tendency, we see no end to the shipping recession. The industry appears to be in a state of quasi permanent over-supply and depression. Any optimism which observers can extract from current circumstances rests upon the view that an upturn in demand for shipping will not be offset by instant and excessive new ordering. If governments are seriously prepared to co-operate in sorting out the problems of the maritime industries, we suggest that restoration of market prices should be their prime concern, and that industry-wide investment criteria rather than project criteria should be applied.

Kenneth Thomas, TechEcon, Sloane Square House, Holbein Place SW1.

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WANG

Moscow in bid to step up satellite launch business

By Patrick Cockburn in Moscow and Peter Marsh in London

THE Soviet Union has stepped up its bid to enter the business of launching commercial satellites on behalf of other countries.

Mr Nikolai Ryzhkov, the Prime Minister, said yesterday that Soviet financial institutions would insure satellites themselves and would let foreign technicians accompany their spacecraft to the Soviet launch site without customs examination.

Mr Ryzhkov's comments are the strongest indication so far of the Soviet Union's desire to enter the launch business, an industry shaken by the explosion last year of Challenger, the US space shuttle, and by a series of failures involving the West's other main launcher, the European Ariane rocket.

As a result of the mishaps, the three remaining US shuttles are grounded until early next year, while Ariane space, the company selling Ariane launches, hopes to restart flights in March. The last Ariane flight, last May, failed to launch its satellite after a motor misfired.

Mr Ryzhkov's remarks in an interview with Tass, the Soviet news agency, may constitute a last-ditch effort by Moscow to interest Western organisations in using its rocket services. Although the country has offered to launch Western satellites on its Proton rockets for two years, there have been no takers.

Moscow is also interested in transporting payloads into space for Third World nations. It has launched satellites for India and recently offered to launch a communications craft for Thailand.

The Soviet Prime Minister said the Soviet Union was prepared to offer substantial discounts to organisations which use its rockets. "As it enters the international market for space technology and services, the Soviet Union of course cannot but reckon with the laws of the market."

The Soviet offer is evidently a bid to earn hard currency in a market in which Moscow can compete and also to undermine Soviet policy on the peaceful use of space. Mr Mikhail Gorbachev, the Soviet leader, has contrasted the Soviet approach with the US Star Wars programme.

Mr Ryzhkov went out of his way to reassure potential foreign customers that their equipment would not be examined by Soviet engineers. The Soviet Union would permit the passage of satellites from the overseas country to the launch site in a sealed container, if this would be convenient to the client.

Any deals between the Soviet Union and the West over rocket launches may involve Jardine Matheson, the Hong Kong-based trading company. Officials from the group have held talks with Glavcosmos, the Soviet space authority, over acting as an intermediary with Western companies that want satellites placed in orbit.

Students burn newspapers

Continued from Page 1

were released. Diplomats say the city has been ordered from above not to confront the students in the streets, so it is confronting them in the press instead.

The Peking Daily continued its relentless attacks on the students yesterday by claiming that they are "poisoned by bourgeois liberalism". The demonstrators held aloft the banner demanding abstract freedom and democracy. But they do not distinguish socialism from capitalist democracy. In reality, they want to use bourgeois liberalism to advocate anarchy.

Chinese leaders have remained silent on the student protests that have swept China in the past month.

White House renews summit offer

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

THE WHITE House yesterday renewed its offer of a summit meeting with the Soviet leader, to attend a summit meeting in the US this year.

White House spokesman Mr Larry Speakes, commenting on a published report that Moscow had made overtures for another summit said that there had been "no direct suggestions from the Soviets that indicate a desire to follow up on our commitment for a summit in the United States in 1987."

He added that "the President believes additional meetings can build on the major progress already achieved... the President's invitation for a US summit remains open."

Last October in Reykjavik, Iceland, Mr Reagan met Mr Gorbachev for the second time for a session which was described in advance as a "mini-summit" but which quickly turned into a full-scale arms control bargaining session. The talks ultimately broke down, however, as Mr Reagan refused to com-

promise his "Star Wars" strategic defence initiative.

The White House has presented the meeting as a success because of "potential" arms control agreements.

Critics have argued that the West was lucky the talks failed because Mr Reagan was on the verge of committing the West to a major and dangerous shift in the strategic balance.

In Washington, there is speculation that Mr Reagan and his advisers

will move quickly to see if an arms control agreement can be reached partly because such a strategy might help to shift attention away from the politically damaging investigations of the Iranian arms transactions. Time is also running out for Mr Reagan to secure an agreement before his term ends.

Failure would expose both him and his party to charges that it has mismanaged a vital area of US foreign policy.

MOSCOW'S INVIGORATED MIDDLE EAST DIPLOMACY MEETS MODEST SUCCESS

Egypt warms to Soviet overtures

BY BARBARA SLAVIN IN CAIRO

WASHINGTON'S embarrassment over the Iran arms scandal has coincided with a period of renewed Soviet diplomatic vigour in the Middle East and a few modest achievements.

Last month, Iran sufficiently overcame its distaste for its Communist northern neighbour to sign an agreement on economic co-operation allowing the return of some Soviet technicians.

At the same time, a high-level Soviet delegation held lengthy talks in Egypt, where it approved a new annual trade protocol and clarified differences over exchange rates and Egypt's old Soviet debts, which had impeded broader economic ties.

Even before the revelations of Washington's arms sales to Iran battered the US Administration's credibility, a number of regimes had expressed growing frustration with President Ronald Reagan's Middle East policy. To many Arab moderates, US diplomacy has been seen as increasingly one-dimensional, based on support for Israel and opposition to Arab terrorism.

Some Arab countries, angered by the US refusal to sell them advanced weaponry, have looked to Moscow for alternative supplies. Others have opened or improved relations in the belief that Soviet involvement is necessary to contain, and perhaps mediate, the Iran-Iraq and Arab-Israeli conflicts.

Later in 1985, famously pro-Western Oman and the United Arab Emirates established diplomatic relations with Moscow. That left only four countries in the region - Saudi Arabia, Qatar, Bahrain and Israel - without formal ties. Last August, the Soviets held their first announced meeting with the Israelis since Moscow broke relations following the Middle East war in 1967.

In recent months, Moscow has been especially attentive to Egypt,

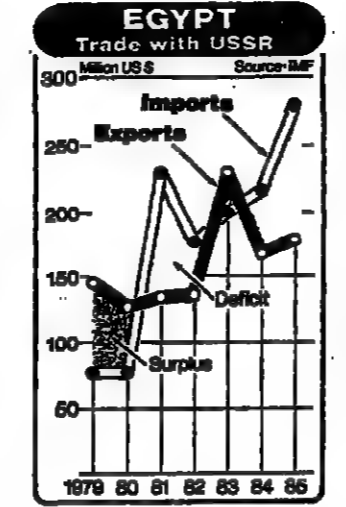
once its premier client in the region and now the closest Arab ally of the US. Moscow has dispatched half a dozen high-level envoys, including Mr Vladimir Polyakov, a veteran former ambassador to Cairo and now the director of the Soviet Foreign Ministry's Middle East department, who briefed President Hosni Mubarak on the results of the Reykjavik summit.

Close on his heels came a group of Soviet cinematographers and a ballet troupe from Riga - ties between the Soviet and Egyptian governments and between their official trade missions were restored following a 10-year lapse. A new Soviet ambassador, Mr Gennady Zhurav, gave a news conference to foreign correspondents and has made himself unusually accessible to the Egyptian press.

We're seeing a new Soviet diplomacy - more open and more flexible, a senior Egyptian Foreign Ministry official said approvingly. A Western diplomat said: "The amount of activity is fascinating, but added: 'The whole is probably less than the sum of the parts.'"

There is no suggestion in Cairo that Egypt, which expelled thousands of Soviet soldiers and technicians in the 1970s, is about to switch alliances again. That seems precluded by Egypt's dependence on more than \$1bn in US aid each year and deeply anti-Communist and religious public opinion.

But President Mubarak has sought to tone down the pro-American focus of his late predecessor, Mr Anwar Sadat, to distance his Government from embarrassing US actions in the Middle East, to refurbish Egypt's credentials as a non-aligned country, and to keep Washington from taking Egypt too much for granted. In recent interviews, Mr Mubarak has ticked off the Americans for showing Egypt less



attention in terms of high-level visits than the Soviets.

Mr Mubarak also has persuasive economic reasons for strengthening relations with Moscow at a time when Egypt is negotiating to reschedule its debts to the West. Besides Sudan, the Soviet Union is the only Egyptian trading partner with which no hard currency changes hands. Under a "clearing account" instituted in 1964 as never interrupted, even during the Sadat years, the Egyptians swap cotton yarn, citrus fruits, pesticides and cosmetics for Soviet lumber, metals, coke, building materials, frozen fish and machinery and equipment.

Over the years, the arrangement has worked increasingly in Egypt's favour. The clearing account is denominated in Sterling at an exchange rate that has remained frozen at £1 = E£2.70, about a third of the current official rate.

During the recent negotiations, the Soviet delegation refused Egyptian urgings to sign a five-year trade protocol without a significant adjustment in the exchange rate. Moscow also withheld agreement to renovate Egypt's vintage Soviet-designed factories without an accord on rescheduling Cairo's \$3bn debt, which the Sadat Government unilaterally stopped servicing a decade ago.

According to Egyptian and Soviet negotiators, Moscow provisionally agreed to forgive the interest. But, in return, the Soviets want to use the \$800m surplus in the current account, built up over the last decade during which Egyptian exports to Moscow exceeded imports, to help pay back the debt. They also seek full repayment by the turn of the century.

Mr Alexander Kazantsev, the Soviet trade representative in Cairo, characterised the talks as "frank", diplomatic language indicating disagreement.

An Egyptian negotiator said his side had to "fight like crazy" to persuade Moscow to agree to a 1987 trade protocol of \$600m. The amount is the same as called for in annual protocols since 1984 but, if fulfilled, would represent a 30 per cent increase over the volume of trade for 1986, when the quota was not achieved.

The new protocol will be reviewed during Egypt's next comprehensive trade and economic talks with the Soviet Union in Moscow during February or March.

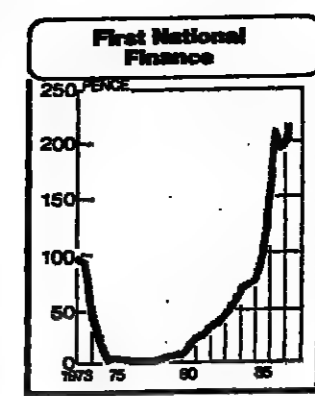
The Egyptians are hoping for an increase in trade. As one negotiator said: "We need the connection with them more than they need us."

Beyond the favourable trade arrangement, he said, a significant portion of Egypt's industry is geared toward producing inexpensive textiles, perfumes and cosmetics for the relatively underdeveloped Soviet market. Egypt would find it difficult to sell these goods to the West or even Eastern Europe.

THE LEX COLUMN

Mercantile's new tenant

When a broker launches a post-hoc raid on its parent company's shares, fund managers can be forgiven for not suspecting an ensuing bid. So those who broke the well-tested maxim and sold in the Alexander Leung & Cruickshank "dawn" raid on Mercantile House shares at 370p may have felt a little piqued by the statement from the victim which followed. At least they have a comforting profit over Friday's close of 280p and the statement was sufficiently opaque not to suggest an immediate offer. Yesterday's closing price of 384p does, however, argue that the enthusiastic takers of 370p have once again proved the rule.



Presumably CrownX, the buyer of the near 15 per cent stake, is the one of "one or more" contemplating an offer for Mercantile, unless taking significant but passive stakes in UK financial groups is becoming a Canadian fashion. If it is, ALCH's involvement alone suggests a friendly deal, in which case shareholders may find their board agreeing to a price below the highest estimates of Mercantile's worth. A figure of 420p might secure agreement though optimistic reckon Mercantile's break-up value at 500p or more.

On the other hand, Mercantile is clearly having a tough time, and earnings are likely to fall this year. It is unable to replace Openheimer's earnings, is suffering out commissions in the US bond market and ALCH, like most UK brokers, is not yet making much post-Big Bang. And in Mercantile's line of business, as has been amply demonstrated elsewhere, hostile bids often defeat their object. In any case, a new owner of Mercantile would have to pass Bank of England vetting to be the first acquirer of a gilt-edged primary dealer.

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FNFC

Profit-making, dividend-paying, fast-growing, acquisition-hungry First National Finance is a real company again - almost. The only remnant of its times in the lifeboat, apart from the odds and ends of loan stock, is its ability not to pay tax. Even that will soon fade. After a small tax credit in the year to October, a tax change of perhaps 10 or 15 per cent will be payable this year. One day FNFC might even have to pay a normal tax charge. Once, FNFC's huge tax losses

When Wall Street started to climb at the end of 1985, highly-leveraged stocks naturally climbed faster still: the name of Drexel Burnham Lambert on a company's bond issues appeared to guarantee outperformance for its equity.

A new index of "Drexel Stocks" calculated by Grant's (a New York credit bulletin) shows that a selection of leveraged stocks, with \$3bn of debt on top of them, have dropped a third of their value since the new index peaked in April 1986; the Drexel index ended a net 11 per cent down on the year, against a gain of 24 per cent for the Dow.

Interestingly, the leveraged stocks went into reverse some time before the recent troubles started to accumulate. It may be too early to say that leverage has become definitively unfashionable; it may simply be that when the market slowed last spring, investors started to notice that levers have two ends.

But what with insider scandals, the troubles of such borrowers as LTV and Cannon, and the advent of US tax reform - raising the after-tax cost of debt - junk leverage has lost some of its appeal.

Drexel index

It is only a matter of months since the most universally approved way to get a share price moving upwards on Wall Street was to lever up the returns to shareholders' equity by loading the balance sheet with bond finance.

In its highest form, of course, this approach to corporate finance involved wholesale substitution of high-yield paper for the ordinary share capital; the tiny equity base that remained underneath a full-scale junk-bond takeover bid was exactly the kind of investment that aggressive investors wanted.

That would, perhaps, have been all right to take care of the interest, but not when it is added to principal repayments on a punishing schedule that requires \$1.1bn to reach the banks by the end of 1988. So breaking the company apart was the only way ahead - and probably makes much more sense for Campeau than attempting to run such enterprises as Bonwit Teller. The surprise, rather, is that Campeau still apparently wants to keep hold of Brooks Brothers, an operation which fits no more comfortably with the property business than the other retailing businesses which have now gone.

The strain of highly leveraged takeovers could not be more neatly portrayed than by yesterday's sale of about half the US Allied Stores group, after it had been owned for less than a week by Campeau, the Canadian property developer. In this case, Campeau is still in the hands of its bankers - having plunged into Allied with the aid of a \$1.7bn bridging loan, and having to support about \$3bn of total debt in the merged company on gross cash flow that is estimated to be short of \$500m.

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Canadians win stake in Mercantile House

BY CHARLES BATCHELOR IN LONDON

CROWN, a large Canadian insurance group, yesterday staged a mid-day stock market raid on Mercantile House, Britain's second-largest money broking company, and gained control of 14.9 per cent of its shares for just over £44m (\$65.5m).

This move, which valued Mercantile's entire equity at £291m, could be the first step towards CrownX launching a full-scale bid for Mercantile, although the Canadian group might face opposition from a rival bidder.

Before CrownX was revealed late yesterday as the buyer of the 14.9 per cent holding, Mercantile announced that it was aware that one or more offers might be on the cards.

Mercantile has been the subject of considerable bid speculation in recent months with both Quadrex Securities, a small securities house, and American Can, which has been diversifying into financial services, mentioned as possible buyers.

Mercantile is one of a group of six British companies which have come to dominate the international market in money and foreign currency broking in recent years. The largest company is Exco International, acquired this month for £573m by

British & Commonwealth Holdings. Other leading groups are Tullett and Tokyo, MAI Holdings and R.P. Martin owned by Quadrex.

S.G. Warburg, Mercantile's merchant bank, said CrownX had been in touch to say it regarded Mercantile as an "interesting company" and that they wanted to talk about areas of cooperation.

Mercantile and CrownX know each other and the UK company's board, headed by Mr John Barkshire, the chairman, is willing to talk about cooperation, Warburg said.

An intriguing aspect of the market raid is that it was carried out by Alexander Leung & Cruickshank, the broker which is now part of Mercantile. Before the identity of the buyer of the shares was known analysts said they assumed the share buying was a defensive move to protect Mercantile from a hostile bid.

Analysts were also intrigued at the possibility of a bid being made for Mercantile. This could provoke a backlash from shareholders who were persuaded to sell yesterday at 370p if a higher offer were subsequently to be made. Leung declined to comment yesterday.

Bankers' rift deepens over Guinness affair

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

THE disagreement between Morgan Grenfell and Henry Ansbacher, the two merchant banks involved in the Guinness affair, over the use to which a transfer of money was to be put, deepened yesterday.

Morgan Grenfell claims that the sum of £7.6m which was sent to Ansbacher was intended as a deposit, and was not to be used to pay for the 2.11m Guinness shares acquired from institutional clients of Ansbacher.

However, Ansbacher maintains that the money was to be used to pay for the shares, and was applied to that purpose. The sum of £7.6m exactly covered the cost of buying the shares, the stamp duty and the financing of the position during the time the institutions held them.

Ansbacher denies that it ever bought the shares itself or carried them on its balance sheet.

Initially, Ansbacher acknowledged to Guinness that the transfer was an interest-free deposit, but this was in a letter whose wording had been dictated to it by Morgan Grenfell. On December 10, Ansbacher sent another letter to Guinness making clear that the money had been used to purchase Guinness shares.

The exact status of the money is at the centre of the Guinness controversy because of allegations that the brewing company's own money was used to buy its shares during the last summer's bitterly contested takeover bid for Distillers, in possible breach of the Companies Act.

Guinness has denied that any such purchase was done with its authority, but Ansbacher says the shares now belong to Guinness, though they are held in an Ansbacher nominee company.

Even according to Morgan Grenfell's account, the making of an interest-free deposit in connection with the purchase of Guinness shares could fall foul of the provisions of the Companies Act, which makes it illegal for a company to offer inducements or compensation to those who buy its shares without observing due procedures.

Meanwhile, the shares of Morgan Grenfell rose strongly on the Stock Exchange yesterday, amid speculation that its recent problems might trigger a takeover bid. Although it has a number of large institutional shareholders who are expected to remain loyal, the group might seek a further link-up.

World Weather

Area	°C	°F	Area	°C	°F	Area	°C	°F
Algeria	13	55	Chicago	8	46	Madrid	12	54
Athens	13	55	Copenhagen	5	41	Moscow	11	52
Bombay	28	82	Dublin	7	45	New York	10	50
Buenos Aires	18	64	Frankfurt	5	41	Osaka	10	50
Calcutta	32	90	Geneva	5	41	Paris	11	52
Cairo	11	52	Hamburg	5	41	Rangoon	28	82
Delhi	28	82	London	5	41	Seoul	10	50
Hong Kong	28	82	Lisbon	13	55	Singapore	28	82
London	5	41	Manila	28	82	Tokyo	10	50
Los Angeles	11	52	Medan	28	82	Yokohama	10	50
Mumbai	28	82	Montreal	-2	28			
Perth	18	64	New Delhi	28	82			
Rangoon	28	82	San Francisco	10	50			
Shanghai	10	50	Sao Paulo	18	64			
Singapore	28	82	Taipei	10	50			
Tokyo	10	50	Wellington	-2	28			
Yokohama	10	50						

Democratic challenge

Continued from Page 1

for visitors to national parks, are projected to bring in \$22.4bn in 1988 and \$30bn in 1991.

Congress has in the past rejected many of these initiatives and they are undoubtedly controversial. Dramatically cutting farm subsidies in the midst of a farm recession is not something Congress can view with equanimity.

The alternatives are not attractive. Some, including Rep Gray, are trying with the idea of raising the \$100bn deficit target, a proposal which would leave his party open to the charge that its concern about fiscal responsibility is mere political rhetoric. Various forms of revenue increase, including some form of oil import fee, are under discus-

sion. The Democrats are, however, reluctant to broach the subject of a straight tax increase while the President is still, steadfastly, against it.

Some Republicans on Capitol Hill are wondering, therefore, whether just like it was the pro-defence Republican Party which initiated in 1985 the major slowdown in the growth of the defence budget, it may be the Democrats who will now find a way to trim back some of the entitlement programmes they have so jealously defended.

As they jockey for position, both parties will have their eyes firmly on the implications of any decisions they make for the 1988 Presidential and Congressional elections.

Reagan warns on budget

Continued from Page 1

Proposed sales of federal assets, in particular loans as well as the Elk Hills naval petroleum reserve and the Amtrak railroad - are presented as part of a "privatisation" effort aimed at reducing Government involvement in the private sector and increasing revenues. The White House estimates this could raise \$5.4bn in 1988.

However, it is in the area of spending cuts - where Congress must make the final spending and revenue-raising decisions using Mr Reagan's proposals as a guide or not as it sees fit - that the fiercest controversies can be anticipated.

CARCLO INTERIM RESULTS

	Unaudited half year ended 30 September 1986	1985	Audited year ended 31 March 1986
Turnover £'000	23,410	17,359	36,610
Profit before tax £'000	2,110	1,759	3,850
Earnings per ordinary share	20.8p	18.1p	39.2p
Dividend per ordinary share	4.4p	4.0p	15.0p
Dividend cover (times)	4.7	4.5	2.6

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Tuesday January 6 1987

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Campeau to reduce debt with sale of Allied assets

BY JAMES BUCHAN IN NEW YORK

CAMPEAU, the Canadian property developer, is to sell almost half of Allied Stores, the large US department store group it has owned for less than a year.

Campeau, which paid \$58 a share, or at least \$3.4bn, in a convoluted takeover battle that ended in the agreement of Allied's management, announced it would be selling 18 of Allied's 24 store divisions to meet the covenants set by its lenders.

The divisions up for sale contributed about 30 per cent of Allied's \$4.1bn in sales in 1985, but a much lower proportion of profit.

In a filing with the Securities and Exchange Commission (SEC), Allied said that out of 698 stores, only 269 would remain part of the merged company. Campeau plans to sell such well known names as Bonwit Teller, Gertie's, Plymouth Shops and Joske's.

Of Allied's specialty stores, Campeau will keep only Ann Taylor, a women's wear chain, and Brooks Brothers, the menswear retailer.

Under the terms of its agreement with lenders, Campeau must make payments of \$300m by June 30, \$500m by the end of this year and \$300m in the course of 1988, for a total of \$1.1bn.

Allied had net earnings of \$159m in 1985.

The SEC filing confirms the extent to which the purchase of Allied has stretched Campeau, which has sales of under \$200m. Campeau acquired 48 per cent of Allied for \$1.7bn in a massive open-market operation, financed by First Boston, in half an hour on October 24.

Last Friday, Campeau announced that Edward J. Debariolo, a shopping centre developer that originally entered the bid battle as a "white knight" for Allied, had lent it \$150m to complete the purchase of Allied by the end of the year.

Campeau found losing some \$250m in tax benefits available only under old tax legislation that expired on December 31.

Under the arrangement, Edward J. Debariolo will have an option to purchase 35 per cent of Allied for an additional \$50m and will buy Allied's five regional shopping centres for \$490m.

BA share offer date expected this week

By Michael Donne

BRITISH AIRWAYS' share sale offer date is expected to be announced by the Government this Thursday, when the pathfinder prospectus for the sale is published.

The prospectus will contain virtually all the key facts necessary for a flotation, except for the actual share price, which will not be revealed until much later this month.

All other relevant details will be included, however, such as the number of shares on offer and the minimum application level for such shares.

The information to be published will include a profit forecast for the current 1986-87 financial year to March 31, which on current business trends is likely to be in the region of £145m (\$245m) pre-tax. A dividend forecast will also be included.

The prospectus is likely to be an encyclopaedia of British Airways' history and an extensive review of its likely immediate future, including forecasts of traffic growth and profitability for 1987-88 and beyond.

The airline's extensive future re-equipment programme is expected to be provided in the prospectus because of the substantial sums involved. For the first time, details of the financial package for the recent order for 16 new Boeing 747-400 jumbos, with an option on 12 more, will be revealed.

The airline will also outline its longer-term thinking on other forms of re-equipment, especially for short to medium-range aircraft, of which it is expected to need substantial numbers.

Writing the prospectus has been one of the most difficult tasks yet undertaken by the airline's management and its financial advisers, in view of the unpredictable nature of the world air transport industry.

Even making a pre-tax profit and dividend forecast for the current year has proved difficult, even though the year still has less than three months to run.

This is because unforeseen international political events can have a serious impact on the air transport industry, as demonstrated by the sudden downturn in North Atlantic traffic early last summer in the immediate wake of the Chernobyl nuclear disaster in the Soviet Union and the US bombing of Libya, giving rise to fears of increased terrorism in Europe.

BA remains confident, however, that no matter what may happen over the next two months or so, it will still be comfortably in profit for 1986-87 although forecasting for 1987-88 remains more difficult.

Citicorp 'plans Japan link'

By Anatole Katsenky in New York

RUMOURS of a tie-up between Citicorp, the largest US bank, and Dai-ichi Kangyo, one of Japan's biggest banks, circulated in New York yesterday following predictions of such an agreement made in a Tokyo newspaper last week.

An unconfirmed report in the Yomiuri Shimbun said Dai-ichi would support Citicorp's credit cards in Japan, that the two banks would give customers access to each other's automated teller machines and that they would mutually act as agents in leasing and mortgage business.

BATTLE FOR AUSTRALIA'S HERALD AND WEEKLY TIMES HOTS UP FOLLOWING NEW BID

Pressure mounts on Murdoch

BY CHRIS SHERWELL IN SYDNEY

JOHN FAIRFAX GROUP'S intervention in the intense Australian takeover battle for the Herald and Weekly Times (HWT) media concern yesterday reinforced pressure on Mr Rupert Murdoch to improve his bid and simultaneously drove the stock market to unprecedented heights.

A bout of feverish share trading pushed the widely watched All Ordinaries index up 18.2 points on the Australian stock exchanges, carrying it through the psychological 1,500 barrier to finish at 1,503.1.

Leading the way yesterday was Queensland Press, the target of an AS10m (US\$600m) takeover bid from Fairfax announced late on Sunday night. It rose AS3 from Friday's close of AS17.20 to finish 20 cents above the bid price of AS20 a share. Share prices for Fairfax, HWT, News Corporation and others also firmed.

Fairfax's entry into the HWT fray reflected the key position in the fight of Queensland Press, the Brisbane company whose main publication is the Courier-Mail. It is the largest shareholder in Melbourne-based HWT, with a 24 per cent stake.

Analysts agreed that the move helped the bid for HWT made by Mr Robert Holmes & Court, the Perth-based entrepreneur, by underpinning the remarkable value of AS2.025bn put on HWT by his bid - a value some have thought to be too high.

The critical question was whether Mr Holmes & Court's rival, Mr Murdoch, would now increase his original AS 12-a-share bid for HWT made by News Corporation early last month.

Mr Murdoch's offer, which valued HWT at AS1.9bn, was overtaken three weeks later by one of AS13 a share from Mr Holmes & Court, who is operating through J. N. Taylor Holdings, part of his Bell Group.

Mr Holmes & Court sweetened this offer to AS13.50 last Thursday and won the support of the board on Friday when it switched away from Mr Murdoch.

An angry Mr Murdoch has since said he will not raise his bid, maintaining that News Corporation's alternative scrip offer is superior to that proposed by Mr Holmes & Court because News Corporation is so much larger and better known than J.N. Taylor.

But Mr Murdoch's word may not be his last. For him the alternatives to raising his cash offer yesterday appeared to be to drop the offer altogether or, more ambitiously, to bid directly for John Fairfax.

The Sydney-based company looks to many to be even more attractive than HWT, especially at current prices. It publishes the prestigious Sydney Morning Herald, Melbourne Age and Australian

Financial Review. Like HWT, it also owns television stations.

Fairfax's Queensland Press bid meanwhile prevents any quick decision by the company over which of the Murdoch or Holmes & Court offers to accept.

That decision was likely to prove difficult. The company is 48 per cent controlled by HWT as the result of a cross-holding, but Queensland Press is not committed to accepting the HWT board recommendation of Mr Holmes & Court's bid.

Indeed, Mr Keith McDonald, chief executive of Queensland Press, is known privately to favour the Murdoch offer.

Unless Fairfax becomes the target of an unwelcome takeover, it now seems well placed to benefit from the latest developments - particularly if Mr Murdoch drops out or its old rivals at HWT end up in Mr Holmes & Court's less experienced hands.

Financial Review. Like HWT, it also owns television stations.

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Rockwell proposes defensive convertible share issue

BY OUR FINANCIAL STAFF

ROCKWELL, the leading US manufacturer of military aircraft and electronics, space systems and rocket engines, proposes to introduce a new class of convertible common shares carrying 10 votes each. The move is a defensive tactic although "the board is not aware of any proposals involving control of the corporation."

If the creation of class A shares is approved at the group's annual meeting on February 11, the shares would be distributed by way of a one-for-one stock dividend. At the same time, the board would consider increasing the cash dividend.

Details of the proposal to authorise 200m A shares is made in a proxy statement sent to shareholders.

The move would result in long-term investors in the corporation having a more significant voice in its direction than short-term holders, it says. The company also proposes to increase the number of authorised common shares to 600m from 400m.

At present, about 30 per cent of Rockwell's 146.1m outstanding shares are owned by the trustee of the company's employee savings plan.

The directors believe the new class of shares will permit the board and stockholders "to have the desired amount of time to evaluate and consider offers affecting control of the corporation."

The new shares will be convertible at the option of the holder on a one-for-one basis into common shares.

They will be deemed automatically converted when the shares are transferred other than under limited permitted transfers to family members and employees under certain benefit plans.

US steel chairman sells stake

By James Buchanan in New York

MR ALLEN PAULSON, chairman and chief executive of Wheeling-Pittsburgh, the US steelmaker operating under bankruptcy protection, has sold his 34 per cent stake in the beleaguered company to a fellow director, Mr Lloyd Lubensky.

The sale helped raise Wheeling-Pittsburgh's share price by 5 1/2 to 58 1/2 in early trading yesterday although the company said it did not know why and at what price Mr Paulson had made the sale.

Mr Paulson, who took management control of Wheeling-Pittsburgh in a boardroom coup in September 1985, had earlier made his name in the aviation industry. In 1985 he sold Gulfstream Aerospace for \$537m to Chrysler.

Mr Lubensky, a California businessman who joined the board of Wheeling-Pittsburgh a month after the Paulson coup, also runs American Jet Industries, an aircraft parts wholesaler he bought from Mr Paulson in 1982.

Wheeling-Pittsburgh, the seventh-largest US steelmaker, announced last month that it would take a \$223m fourth-quarter charge against closing its rail business, thus wiping out any earnings for the year.

However, the group posted third-quarter earnings of \$19.2m. Thanks largely to freedom from interest payments and more favourable labour and supply contracts made possible by chapter 11 bankruptcy proceedings.

Siemens to take control of Florida telecom group

BY DAVID BARRISH IN BONN

SIEMENS, the West German electrical and electronics group, is stepping up its assault on the US telecommunications market through a \$185m deal to take full control of the main operations of Telecom Plus International, the Florida communications group.

Siemens has agreed to lift to 100 per cent from 35 per cent its stake in Tel Plus Communications, the main operating subsidiary of the Boca Raton-based Telecom Plus concern.

The move comes amid growing efforts by the West German company to gain a foothold on the deregulated US market for switching and communications equipment.

Siemens is also taking over three smaller subsidiaries of Telecom Plus. The West German concern already distributes equipment through Tel Plus and believes that a full takeover will help its efforts to break into the US market for new generation integrated systems linking voice, data and image communications.

Siemens has been stepping up a bid to sell digital switching equipment to the regional Bell telephone holding companies. But its efforts have recently been held up by American concern that the US is opening up its own market without achieving reciprocal access to telecommunications markets in Europe.

Indosuez in Canada move

BY OUR FINANCIAL STAFF

THE LAURENTIAN Group, Canada's third-largest integrated financial services group, has increased its voting control in Geoffroy Le Clerc, a large Quebec-based brokerage company, and may become majority owners after seven years.

At the same time, Banque Indosuez, the French investment bank, is to take a 19.7 per cent stake in the brokerage company, giving it a new international operating link.

The move has been made possible by proposed federal legislation opening up ownership of Canadian investment firms to other financial services groups and outsiders.

Le Clerc, the second-largest Quebec-based brokerage group has expanded nationally in the past two years.

Laurentian has about 10 per cent ownership now in Le Clerc but under the deal will own 45 per cent of a holding company which in turn owns voting control of the Quebec brokerage company. Mr Guy Desmarais, Le Clerc's president, will hold 55 per cent. But Laurentian, under an agreement with Mr Desmarais, can become majority owner of Le Clerc after seven years.

For Indosuez, subsidiary of the French state-owned Suez group, the move is the second in the past two months aimed at developing an international securities network. In November it acquired Wico, the stockbroker subsidiary of the UK money broker Exco.

In North America, Indosuez also recently bought a majority stake in GNP Commodities, a trader on the Chicago futures markets.

GROUP'S FOURTH YEAR AT THE TOP WITH \$44BN IN MANAGED SECURITIES

Salomon heads corporate debt underwriters

SALOMON Brothers topped the list of most active underwriters in the US corporate debt market for the fourth consecutive year, Bearer reports from New York.

It managed an estimated \$4.33bn of general and convertible securities, according to figures compiled by IDD Information Services.

Meanwhile, Drexel Burnham Lambert kept its number one position in the high-yield securities market, sole or lead managing an estimated \$17.7bn last year, IDD said.

While Salomon's tally for 1986 is up sharply from \$26.2bn in the previous year, the firm's share of the new issue market slipped to 19.4 per cent from 25 per cent in 1985, the IDD statistics showed.

A record \$230bn of new corporate offerings, including straight debt, asset-backed securities, collateralised mortgage obligations, convertible securities and floating-rate

debt, flooded the market last year on the heels of a sharp drop in US interest rates.

That is more than double the prior record of \$104.9bn set in 1985.

First Boston retained its number two position among underwriters, managing an estimated \$40.94bn compared with the prior year's tally of \$19.35bn.

As was the case with Salomon, First Boston's market share declined to 17.9 per cent from 18.1 per cent in 1985. But investment bankers pointed out that First Boston experienced less of an erosion in market share.

According to its own figures, First Boston has managed 88.1 per cent of the deals in this specialised \$11.3bn market since it introduced the concept in March 1985.

Morgan Stanley jumped to third place last year from sixth in the prior year. IDD estimated it managed \$27.42bn of offerings for a 12 per

cent market share, up from 1985 volume of \$7.15bn and market share of 6.8 per cent.

Officers on Morgan's corporate syndicate desk said the firm won more corporate issues in competitive bidding in 1986 than it had in any of the past few years.

They said Morgan also set out in 1985 to increase its share of collateralised mortgage obligations, where Salomon is dominant, and junk bonds, where Drexel is leader.

Morgan's strategy clearly yielded results, underwriters said.

Morgan Stanley was placed third among the most active junk bond managers, bringing an estimated \$2.04bn of such deals to market last year for a 6.9 per cent market share. Morgan's tally for 1985, when it ranked fourth in this area, was \$1.09bn for a 5.7 per cent market share, according to IDD's calculations.

Merrill Lynch Capital Markets retained the number four slot in the overall debt market in 1986, with volume of \$25.17bn and market share of 11 per cent, up from the prior year's results of \$11.27bn for a 10.7 per cent share of the new issue market, IDD figures show.

Merrill raised itself a notch in the high-yield area last year to number two from third place in 1985. It managed \$3.72bn of "junk" for a 9 per cent market share, up from \$1.1bn and 5.8 per cent, respectively, in the prior year.

Drexel Burnham placed fifth overall for the second straight year. It managed an estimated \$25.08bn of new offerings for an 11 per cent market share, up from \$11.23bn and 10.7 per cent, respectively, in 1985, IDD said.

However, Drexel's commanding lead in the junk bond market slipped to 43 per cent last year from 48.3 per cent in 1985, when it underwrote \$9.22bn of new offerings.

A\$50,000,000

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The undersigned acted as financial advisors to S.A. Cimenteries CBR Cementbedrijven N.V. in this transaction.

Dillon, Read & Co. Inc.

Dillon, Read Limited

January 6, 1987

INTL. COMPANIES AND FINANCE

Chicago futures exchanges see record volumes

By David Owen in Chicago

CHICAGO'S two major futures exchanges, the Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME), last week announced annual volume records capping another highly satisfactory year for the industry as a whole.

Volume at the CBOT, comfortably the world's largest futures exchange, reached 100.8m contracts in 1986 - up 20.2 per cent from the 1985 level. Volume at the smaller CME, meanwhile, totalled 68.8m - an increase of 21.6 per cent from a year ago.

This represents the CME's 18th consecutive annual volume record. The CBOT has reached a similar landmark in 16 of the past 19 years.

Belgian banks discuss revision of loan to Cockerill-Sambre

By OUR FINANCIAL STAFF

BELGIAN banks are discussing a possible revision of the terms of a Bfr. 27bn (\$800m) loan to Cockerill-Sambre, the troubled steel group, the Finance Ministry said. Negotiations with the Government are expected to be completed by the middle of this month.

The loan, in three tranches each for 23 years, was obtained for the state-controlled steelmaker through the Wallonian Committee for the Public Sector, an organisation controlled by the local government in the Wallonian, or French-speaking, part of Belgium.

The first tranche, advanced in July 1984, was for Bfr. 2bn and carried

interest of 12.575 per cent. The second, made available in November 1984, was for Bfr. 10bn at 12.25 per cent and the final Bfr. 15bn forwarded in July 1985, carried interest at 11.75 per cent.

Last summer, the Belgian Government renegotiated terms on more than Bfr. 1,300bn of long-term loans supplied by the country's major financial institutions.

Immediate interest was limited to 8 per cent, with the rest of the interest due paid through eight-year treasury bonds carrying relatively low interest, initially set at 7 per cent.

According to Belgian bankers, a similar arrangement, which involves relatively light sacrifice by the banks, could be one of the options under discussion.

The renegotiation is part of a package of measures agreed by Belgium's centre-right Government which also involves financing the rationalisation of a state-owned coalfield in the Dutch-speaking province of Limburg, officials said.

It is understood that the major banks most heavily involved in the Cockerill-Sambre loan were Generale de Banque and Banque Bruxelles Lambert.

N. AMERICAN QUARTERLIES

Transportation equipment	1986-07	1985-06
Revenue	382.8m	369.2m
Net profit	18.0m	4.3m
Net per share	0.60	0.15
Six months		
Revenue	778m	681.1m
Net profit	38.1m	12.5m
Net per share	1.20	0.42

Other products	1986-06	1985-05
Revenue	120.8m	98.4m
Net profit	18.0m	12.4m
Net per share	0.60	0.40
Six months		
Revenue	241.6m	207.8m
Net profit	36.0m	24.8m
Net per share	1.20	0.80

General Cinema	1986-06	1985-05
Revenue	262.8m	244.2m
Net profit	23.8m	21.3m
Net per share	0.60	0.50
Six months		
Revenue	525.6m	488.4m
Net profit	47.6m	42.6m
Net per share	1.20	1.00

National Medical	1986-06	1985-05
Revenue	1,010m	882.8m
Net profit	38.0m	27.8m
Net per share	0.60	0.40
Six months		
Revenue	2,020m	1,765.6m
Net profit	76.0m	55.6m
Net per share	1.20	0.90

Fuller	1986-07	1985-06
Revenue	1,000m	1,000m
Net profit	50.0m	50.0m
Net per share	0.50	0.50
Six months		
Revenue	2,000m	2,000m
Net profit	100.0m	100.0m
Net per share	1.00	1.00

Other	1986-06	1985-05
Revenue	432.8m	388.4m
Net profit	17.4m	14.2m
Net per share	0.62	0.54
Six months		
Revenue	865.6m	776.8m
Net profit	34.8m	28.4m
Net per share	1.24	1.08

Property	1986-06	1985-05
Revenue	718.8m	671.4m
Net profit	71.8m	67.1m
Net per share	0.90	0.80
Six months		
Revenue	1,437.6m	1,342.8m
Net profit	143.6m	134.2m
Net per share	1.80	1.60

NOTICE OF PREPAYMENT



THE MITSUBISHI BANK LIMITED

(Incorporated in Japan)
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Issued on 7th February 1984

Maturity Date 10th February 1988

Optionally Callable on 9th February 1987

Notice is hereby given that in accordance with the Clause of the Certificates of Deposit (the "Certificates") The Mitsubishi Bank Limited (the "Bank") will prepay all outstanding Certificates on February 9 1987 (the "Prepayment Date"), at their principal amount.

Payment of the principal amount, together with accrued interest to the Prepayment Date, will be made on the Prepayment Date against presentation and surrender of the Certificates at the London Branch of the Bank.

Interest will cease to accrue on the Certificates on the Prepayment Date.

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Bear, Stearns & Co. Inc.

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December 1986

BEAR
STEARNS

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New Issue

\$100,000,000

**WARNER
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Warner-Lambert Company
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UK COMPANY NEWS

All-round growth gives FNFC 65% profit boost

BY DAVID LASCELLES, BANKING CORRESPONDENT

First National Finance Corporation, the once ailing finance group, increased pre-tax profits by 65 per cent in the year ending October 31 1986, and expected to report further improvements this year.

Pre-tax profits amounted to \$24.4m compared to \$22.1m last year. Both of the company's main operating divisions, lending and property and consumer credit, contributed to the increase.

Lending and property, which includes the newly acquired bank Twentieth Century Bank Inc., and its property-owning activities, earned \$13.9m. Of this \$4.6m was earned by TCB in the six months since it was bought. The remainder came from the management and disposal of some of the flats which FNFC still owns through foreclosures on defaulted loans.

The consumer credit division earned \$27.1m, up from \$18.4m, mainly from activities like home improvement loans and personal loans. The loans



Mr. Richard Langdon, chairman of First National Finance Corporation

were almost all at variable rates of interest.

Charged against the earnings of both divisions was \$4.5m in financing costs incurred

through First National Securities (Holdings) which finances the group's loan stock.

Total dividend for the year is 6.3p per share, up from 4p last year. Earnings per 10p share were 27.4p (16.5p) basic or 24.3p (15.5p) fully diluted.

The group still has \$30m in tax losses, but these could only be applied selectively against the earnings of the parts of the company where the losses were incurred.

Mr. Richard Langdon, chairman, said that earnings assets had increased from \$470m to more than \$500. "Thus we enter 1987 with confidence and in the belief that we will report further improvement."

He said that FNFC might make further acquisitions, but these would be of a tactical rather than strategic nature, and would be related to the company's existing activities. He mentioned building societies as one possibility.

See Lex

Acquisitions lift Carclo profits to over £2m

INCLUDING a contribution of £250,000 from Bruntons (Kensington), acquired late August 1986, taxable profits of Carclo Engineering Group, Huddersfield-based card clothing and engineering products concern, moved ahead from £1.76m to £1.11m for the half-year ended September 30 1986. Turnover amounted to £22.41m, against £17.36m, and included £1.14m from Bruntons.

The directors stated that results for the six months reflected satisfactory trading from the group's operating divisions and, apart from Bruntons, took into account the equity accounting of the group's investment in Jones Woodhead—acquired last November.

They added that almost all companies in the enlarged group had order books higher than at the same time last year.

Fully diluted earnings per share were given as 20.5p, compared with 15.1p while the interim dividend is increased to 4.4p (4p) net.

Comment

Having tidied up the core business of card clothing and sold off the Indian subsidiary, Carclo is now tidying up the financial side of a multi-conglomerate but these figures reveal only the earliest stages of its expansion plans.

Bruntons is only just included in these figures and Jones Woodhead was not bought in time to make a contribution in the first half. For the immediate future, the company will concentrate on digesting its recent purchases but the 11 per cent stake in Bruntons is a long-term investment.

These costs have continued into 1986, but the group expects to make an operating profit of \$800,000 this year on sales similar to those of 1985. Metal Box said it was confident of substantially greater profitability in the US after the integration of Rudco.

According to industry estimates the 1985 market for cheques in the US was about 48m cheques. This is expected to grow by 3 per cent a year.

Barings, Metal Box's merchant bank adviser, will take up all the newly-issued shares and place them with investment clients of itself and of Cazenove. Dealings in the new shares will start on January 12.

Norfolk Capital agrees to talks after approach from S & N

BY CLAY HARRIS

Norfolk Capital, the hotels group, has agreed to talks this week after an approach by Scottish & Newcastle Breweries. Mr. Anthony Richmond-Watson, Norfolk chairman, confirmed that S&N was believed to hold about 5 per cent of his company, although official notification had not been received.

Mr. Allick Rankin, S&N chief executive, had sought discussions and Norfolk had agreed as it would with any 5 per cent shareholder. Mr. Richmond-Watson said. As to Norfolk's attitude to any bid from S&N, Mr. Richmond-Watson said: "One hasn't come. We're not going out looking for one."

Mr. Rankin has declined to confirm or deny that it has built up a stake in Norfolk Capital. He said, however, that in the hypothetical case of S&N making an approach, it would not be able to use Morgan Grenfell as advisers as it did, for example, in its bid for Matthew Brown.

Mr. Richmond-Watson is a director of Morgan Grenfell, which has also acted for Norfolk in the past. This would certainly pose a conflict, Mr. Rankin said.

Financial advice, in any case, was a matter of special situations "these days and S&N

had a "variety of good contacts," he said. Hill Samuel declined to comment yesterday on reports that S&N had appointed it as adviser.

Norfolk Capital operates 10 hotels including the Royal Court and Norfolk in London and the Caledonian and North British in Edinburgh. Both bought in September 1986. It reported pre-tax profits of \$439,000 on turnover of \$5.6m in the six months to June.

S&N operates 29 hotels through its Thistle Hotels subsidiary. Norfolk Capital shares were unchanged at 30p, and S&N was 2p lower at 198p.

Management buys out BSR's Taiwan offshoot

BY TERRY POVEY

BSR International has sold its Capetronic electronics group of subsidiaries based in Taiwan to its management for \$12.25m (\$8.20m) and will apply the proceeds to reducing group debt.

Morgan Grenfell, advisers to BSR, said yesterday that the disposal of Capetronics "removes a high volume, low margin business which has a high currency risk."

Under the impact of the strong Taiwanese dollar and the yen, Capetronic has struggled to maintain profits and in spite of a pre-tax contribution to the group of \$200,000 in 1985, the sub-group had a negative net worth of \$2.5m.

After this disposal BSR, which was once a top name in the record player turntable business, will consist primarily of Astec, the power supply switching equipment company based in Hong Kong, Swan, the household electrical goods company and a 60 per cent stake in

former subsidiary Tenby. Tenby was floated in the US last June and it is expected that Swan will be similarly spun off within the next year.

At the end of 1985 BSR had net debts of \$37m, which increased due to the cost of the rising sterling value of the working capital requirements of the Capetronics operation by the interim stage. Shareholders' funds totalled \$57.6m and included the negative Capetronic contribution of \$2.5m.

Capetronics management will pay BSR \$5m in cash, \$6m in bank guaranteed promissory notes, and \$1.25m in 7 per cent convertible redeemable preference shares in the new company they are forming.

Mr. Bill Wyllie, BSR's chairman, said in a statement that after this sale the group would be predominantly a high tech electronics business concentrating on the computer, information and telecommunications markets.

US purchase for Cement Roadstone

Cement Roadstone Holdings, Dublin-based construction materials group, has bought King Road Materials of Schenectady, New York, for \$5.6m (\$3.8m). The cost includes an acquired debt of \$1.4m.

King is an asphalt producer and paving contractor. Production capacity is 350,000 tons per annum and in 1985 the company made pre-tax profits of \$1m on a turnover of \$10m.

The acquisition will complement the road and construction business of Callanan Industries, bought in 1985.

During 1986 CRH spent \$57m on acquisition of construction-related businesses, primarily on six companies in the US.

Blue Circle
A subsidiary of Adelaide Steamship has raised its stake in Blue Circle Industries, building materials group, to 9.57 per cent. Blue Circle shares well up to 674p yesterday.

ASH US associate sells major offshoot

By Charles Batchelor

Network Security Corporation, a US electronic security company, in which Automated Security Holdings (ASH) has a 26.5 per cent stake, is selling Network Multi-Family Corporation to Inspectorate International for \$39m (\$26.5m).

Inspectorate, a publicly-quoted Swiss company headed by Mr. Werner K. Rey, has also bought a 12 per cent direct holding in Network from Mr. George K. Broady, Network's chairman and chief executive.

Inspectorate is an inspection and engineering consultancy group which has also built up a property portfolio and banking interests under Mr. Rey.

Mr. Chris Boon, of ASH, said the sale of Multi-Family, which installs alarm systems in apartment blocks, was "a disappointment for us strategically." It represented a large part of Network's profits and the Network state had been built in November 1984, to give ASH a foothold in the US.

ASH still had first refusal over Mr. Broady's shares but it was unlikely to match the price paid by Inspectorate of more than \$9 each, when the market price at the time had been about \$5m.

Multi-Family had been planning a public listing in the US but was approached by Inspectorate with an offer at the proposed listing price so accepted, Mr. Boon said.

Mr. Broady has sold his entire holding but intends to remain as chairman and chief executive. ASH said it was not alarmed at this development and that Mr. Broady had financial commitments elsewhere which required the sale.

Inspectorate acquired CPS Computer, a loss-making US-based computer distributor last June for \$1.65m.

Fisons' £7m US expansion

By Philip Cogan

Fisons, the drugs and horticulture group, is paying \$10.4m (£7m) in cash for US company J & W Scientific. The California-based company makes capillary columns for use in high resolution gas chromatography.

Gas chromatography is an analytical technique used by the pharmaceutical, agricultural and environmental industries. Fisons already owns Carlo Erba, a company which makes chromatographs and the purchase of J & W is part of the group's strategy to expand the manufacturing content of its scientific equipment division. J & W will also link with CMS, one of the largest scientific equipment distributors in the US.

Anglia Secure

Anglia Secure Homes, builder and manager of sheltered homes, is buying Count Page, the Cambridge-based architect. The initial consideration of \$488,000 is being satisfied by the issue of 174,330 ordinary shares. Further performance-related consideration to a maximum of 46,977 shares, will be paid.

Bryant issues ECC bid defence bolster

By Clay Harris

Bryant Holdings, the Midlands-based housebuilder and property developer, will publish today a long-awaited asset valuation to bolster its defence against a takeover bid from English China Clays.

Bryant will also produce a profit forecast for 1987-88 to add to its previous prediction of more than £21m in the year to May 1987.

ECC has failed to convince the stock market that its three-for-seven share offer will be sufficient to win Bryant. The clays, quarrying and construction group's shares closed yesterday at 311p, valuing Bryant at 132.5p, below the market price of 162p.

An increased offer, although prematurely anticipated three weeks ago by Bryant's financial advisers, had not been expected to emerge until after Bryant updated the valuation of its development land bank from the \$71.5m figure at May 31 1986.

Metal Box in \$13.9m US printing expansion

BY CHARLES BATCHELOR

Metal Box, the packaging group, is expanding its security printing operations in the US with the purchase of Rudco Industries for \$13.9m in shares. It will place 5.33m shares, representing 1.7 per cent of its enlarged equity at an underwritten price of 170p each.

Rudco is a privately-owned cheque printer operating principally in the mid Atlantic and north-eastern states. It made an operating profit of only \$200,000 on sales of \$38.9m in 1985 and employs 670 people.

The Rudco purchase comes three years after Metal Box first went into security printing in the US with the establishment of greenfield site in Los Angeles in 1983. It went on to buy Clarke Cheques, operating in the South and South West in April 1985 and Chek Print, Seattle.

The latest acquisition will give Metal Box further benefits from economies of scale in areas such as material costs, product development, overheads

and computer systems, the British group said.

Rudco's 1985 profits were adversely affected by the cost of a three-year programme to re-equip its plants with offset printing technology and the implementation of a computerised invoicing system.

These costs have continued into 1986, but the group expects to make an operating profit of \$800,000 this year on sales similar to those of 1985. Metal Box said it was confident of substantially greater profitability in the US after the integration of Rudco.

According to industry estimates the 1985 market for cheques in the US was about 48m cheques. This is expected to grow by 3 per cent a year.

Barings, Metal Box's merchant bank adviser, will take up all the newly-issued shares and place them with investment clients of itself and of Cazenove. Dealings in the new shares will start on January 12.

FIRST NATIONAL FINANCE CORPORATION 1986. JUST HALF THE STORY.

WHEN 1986 began we felt that it was going to be an extremely good year. All divisions have finished our expectations.

FNS continued to trade profitably in the consumer lending market. FNFC is providing finance to enter property development and building, showed an encouraging response. This market has remained favourable to our fast and efficient service.

The acquisition of TCB at the end of April was particularly gratifying. Lending assets now exceed £725 million and TCB production with an extra channel for further expansion of lending.

Half-way through the year group results show a 44.7% rise in profits year on year (This result does not exist a comparison from TCB, whose profits for the 4 months to April were £12 million).

And when planned to have released our company's financial dividend.

So you can imagine how much we are looking forward to the second half of the year.

	1986	1985
Full year results to 31st October		
Profit before taxation	£36,426,000	£22,068,000
Taxation	(£322,000) Cr.	£1,502,000
Preference Dividends	£1,599,000	—
Earnings per share	27.4p	16.5p
Dividends per Ordinary share net of tax credit	6.35p	2.8p

FNFC
FIRST NATIONAL FINANCE CORPORATION PLC

The second half has proved even better.

As we expected, First National Finance Corporation has gone from strength to strength in the second half of the year.

It's partly because of the increased profit generated by our successful acquisition of TCB in April. But even without that extra input we've shown exceptional growth.

Profits have reached a record high and are 65% higher than last year. Earnings per share are up by 66%. Earnings assets are over £800 million. And we

	1986	1985
Full year results to 31st October		
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Preference Dividends	£1,599,000	—
Earnings per share	27.4p	16.5p
Dividends per Ordinary share net of tax credit	6.35p	2.8p

are returning to a full year of dividends. This success has been across all our divisions. First National Securities has been trading even more profitably in consumer lending and we have continued to expand our commercial lending and property development activities.

We are looking forward to continued growth in business activity and profitability.

FNFC

FIRST NATIONAL FINANCE CORPORATION PLC

Hawker purchase

Hawker Siddeley has acquired Connectron, a privately-owned US company, for \$8m (£5.5m) in cash.

Connectron, based in Laurence Harbor, New Jersey, manufactures fuseholders, electrical terminal blocks, connectors and control circuit breakers.

The acquisition, carried out via Hawker's wholly-owned US offshoot Brush Fuses, brings Hawker's total investment through acquisitions in the US since September 1985 to more than \$165m.

Corton for Third Market

BY ALICE RAWSTHORN

Corton Beach, which has interests in the automotive entertainment, food and leisure-wear fields, has announced its intention of joining the Third Market.

The Third Market is the new forum for trading in the shares of young unquoted companies which will be introduced by the Stock Exchange later this month. Corton Beach should be on of 20 or so companies using the market on its first day of dealings.

After its Third Market introduction, through the stock brokers, Heseltine Moss, Corton Beach should be capitalised at

more than \$8m. Its shares are currently traded under the Stock Exchange's Rule 856(2).

Yesterday, Corton Beach announced the acquisitions of Paul Dixon, a Hull-based firm of motor dealers, for a profit related payment of £1.25m in cash and shares. The company expects to stage another acquisition before the end of this month.

In the six months to August 2 Corton produced pre-tax profits of \$204,000 on turnover of \$7.6m, and expects profits of around \$700,000 for the full year.

All share Notes have been sold. This announcement appears as a matter of record only.

Landesbank Stuttgart

Württembergische Kommunale Landesbank Girozentrale

— London Branch —

A\$35,000,000

14 per cent. Notes due 1991

Issue Price: 101¼ per cent.

Hambros Bank Limited

ANZ Merchant Bank Limited

Banque Bruxelles Lambert S.A.

BKA Bank für Kredit und Aussenhandel AG

Commonwealth Bank of Australia

Kreditbank International Group

Lloyds Merchant Bank Limited

Morgan Guaranty Ltd

Norddeutsche Landesbank Girozentrale

Rabobank Nederland

Bain and Company

Banque Générale du Luxembourg S.A.

Commerzbank Aktiengesellschaft

EBC Amro Bank Limited

Landesbank Schleswig-Holstein Girozentrale

McCaughan Dyson and Co. Limited

Morgan Stanley International

Orion Royal Bank Limited

Security Pacific Hoare Govett Limited

December, 1986

UK COMPANY NEWS

David Goodhart looks at Pegler Hattersley six months after Tomkins takeover

The super-tanker has started to turn

THE TAKEOVER trade begins the new year in low esteem. The mega-bids are increasingly regarded by the public as inspired by little more than executive vanity or merchant bankers' lust for fees, with the laurels invariably going to those companies with the sharpest share jugglers on their side.

But before such sentiments can be put to rest, the takeover bid in 1987, P. H. Tomkins would like to tell its story. Tomkins—a leading engineering mini-conglomerate run by a former Hanson Trust executive, Mr Greg Hutchings—completed one of the most audacious bids of all in 1986.

For about £190m it acquired Pegler Hattersley, the valve and tap group with about three times Tomkins' turnover and pre-tax profits.

It was a classic case of the shareholders in the bid-for company buying in a new management team at the price of hefty dilution in their stakes. In return for about 70m new ordinary Tomkins shares—62 per cent of the enlarged equity—Pegler shareholders provided 75 per cent of pre-tax profit and 86 per cent of net assets.

As if slightly stunned by its own audacity in handing PH over to Tomkins in June, the City promptly turned down more similarly "cheeky" bids: Evered Holdings for McKechie Brothers, and Siebe for APV.

In retrospect Tomkins thus came to be seen as fortunate to have slipped through the door before it slammed shut.

But with six months' reorganisation at PH behind him, Mr Hutchings appears to believe that the PH-Tomkins combination provides one of the clearest recent indications of the takeover system. "It would have been an endorsement of mediocrity if we had lost," he says.

Pre-takeover PH was, in fact, far from a hopeless case. Profit margins were close to 10 per cent and although earnings per share growth was flat (compared with Tomkins' 33 per cent a year), capital investment of £50m over five years was beginning to produce results.

There was also some doubt whether the Tomkins techniques (borrowed from Hanson and BTR) of tight financial control, clear performance

targets, and performance related management rewards, would work as well on a large group like PH—employing 4,500 people at 22 plants both sides of the Pennines—as they had done on smaller takeover targets.

So what has happened? Mr Graham White, managing director of Pegler, PH's largest company, should have been a difficult man to ask.

During the final weeks of the bid last June he was stoutly defending the PH record and claiming it was virtually unimprovable upon. Mr White is still at his desk in Doncaster from where he now maintains—

with a politician's flair for jargon—that he is both a convert to the "Hutchings Way," yet is merely speeding changes that were on the way.

"Tomkins have injected pace into what was a very important thing," says Mr White. "They also have a very intellectual approach to business. Things are thought through logically and rationally to the nth degree—and it's much easier to achieve goals if you have a clear idea of what they are."

Mr Hutchings believes in setting a corporate culture from the top—and has thus weeded out several former PH executives—but most, like Graham White, have stayed to undergo "re-education."

Unlike the other well-known conglomerate, Williams Holdings, which relies on its "hit squads" to shake-up acquisitions, Tomkins' senior executives have been directly involved in the re-education.

In fact, a few days after his victory, Mr Hutchings visited every PH company (by helicopter) to give key personnel the same presentation of Tomkins record and method that he had delivered to the fund managers a few weeks before. He then sent outside accountants into every company to prepare detailed reports.

Mr Hutchings says he was appalled by how financially backward PH appeared to be. "We were staggered to find the companies kept no return on capital employed figures."

"Also, most of the finance directors never negotiated credit terms on incoming bills—they just paid them, that's



Mr Greg Hutchings, chief executive of P. H. Tomkins

straight bad business," he says. He also found it odd that there was a central treasury function and yet all the cash was kept in the subsidiaries.

Tomkins has made major management changes at only one company—Pegler Louden—but has implemented a new three-division structure integrating the two companies.

Each division is run by a director working closely with a financial controller. Division one, for example, consisting mainly of original Tomkins' businesses such as lawnmower maker Haydon is run by Mr Tony Hazard at Tomkins backed by Mr Pat Lithgow, former PH group accountant.

The limited personnel changes have been supplemented by three fundamental management reforms. First, the tighter financial controls and more rigorous financial reporting day.

Mr Hutchings replies: "PH invested £50m and didn't markedly increase profit over five years. We may spend more or less but we will certainly get a better return."

Second, Tomkins boasts of far quicker decision making. Mr

Hutchings cites the closure of J. J. Brainbridge, a scrap metal merchant, which PH had been dithering about for years, or the four new salesmen Pegler was immediately granted to back the push into higher value-added markets.

Third, management motivation and autonomy. PH used an output based incentive scheme which was helping to increase stocks, not efficiency. Tomkins has linked it to return on capital and profit growth. It has also widened the share option scheme.

Mr Bob Muddimer, an ex-BTR manager brought in to run division three, is particularly keen on managers with large share stakes, not just as an incentive but because he believes the greater the independent means of a manager the bolder and more independent he will be.

The managers are exhorted not just to meet monthly and annual targets but also to propose new ideas such as add-on acquisitions and "to think where they want to be in three years' time." They are rarely bothered on operational matters.

Sceptics will say that many of these changes—including stock reductions and the HQ closure—are one-off savings that any new management could have spotted. Do they justify the disruption and £20m cost of the bid? It's easy to look trim after six months—will the picture be the same after five years? Above all will investment be kept up?

The fear that annual return targets linked to management pay creates a bias against long-term investment is one of the main anxieties expressed about the new conglomerate.

Mr Hutchings replies: "PH invested £50m and didn't markedly increase profit over five years. We may spend more or less but we will certainly get a better return."

He is unlikely to be out of favour for long, with £50m net cash Tomkins is financially and managerially ready for another bid.

Mr Hutchings concludes: "Even though we are a little high on what we have done so far, we will not rush."

EULABANK

Extract from Audited Consolidated Accounts for the twelfth year ended 30th September 1986

	1986	1985
	£	£
Profit before Taxation.....	8,706,250	8,937,399
Profit after Taxation.....	5,009,973	4,927,067
Share Capital and Reserves.....	47,953,777	42,943,804
Subordinated Loans.....	24,221,453	25,000,000
Deposits.....	714,205,336	814,933,329
Cash at Banks, etc.....	134,263,719	170,629,058
Deposits Placed.....	75,667,873	92,695,469
Loans and Advances.....	573,434,783	608,142,109
Total Assets.....	795,157,708	894,765,579

Eulabank is an international merchant bank based in the City of London; its shareholders are leading European and Latin American banks. The bank specialises in arranging and participating in loans to major borrowers throughout Latin America.

SHAREHOLDER BANKS

Europe: Algemeene Bank Nederland NV; Banca Nazionale del Lavoro; Banco Central SA; Banque Bruxelles Lambert SA; Banque Nationale de Paris SA; Barclays Bank PLC; Bayerische Hypothek- und Wechsel-Bank AG; Deutsche Südamerikanische Bank AG; Dresdner Bank AG; Österreichische Handelsbank AG; Union Bank of Switzerland.

Latin America: Banca Serfin SNC; Banco de Colombia; Banco de la Nación; Banco de la Nación Argentina; Banco de la República Oriental del Uruguay; Banco del Estado; Banco del Estado de Chile; Banco del Pichincha CIA; Banco do Brasil SA; Banco Industrial de Venezuela CIA; Banco Mercantil de São Paulo SA.

The above extract is an abridged version of the group's full accounts which will be filed with the Registrar of Companies and on which the company's auditors gave an unqualified report.

Copies of the Annual Report and Accounts may be obtained from the Secretary.

EULABANK

Euro-Latin American Bank PLC

Offices: House, 65 Bevington Street, London EC2V 5EN. Tel: 01-406 6411. Telex: 861022

Starstream refinancing deal

BY RAYMOND SNODDY

Central and Thames, two of the big five ITV network companies, have each bought a 22 per cent interest in Starstream, the company which runs The Children's Channel, the cable and satellite television channel.

Each company is putting in both £583,000 in equity finance and matching amounts in two year loan stock.

The deal is part of a refinancing package for the Channel in which British Telecom, D. C. Thomson and Thorn EMI had an equal stake. Both BT and D. C. Thomson are also increas-

ing their investment in Starstream. Under the new deal the two ITV companies, BT and D. C. Thomson will each have 22 per cent stakes with Thorn holding the residue.

Children's Channel is available to cable networks in the UK and also in Finland and Sweden. The refinancing is partly designed to pay for an expansion into Norway, Denmark, Holland, Belgium and the Republic of Ireland later this year.

Central also announced yesterday that it had acquired FilmFair, the film animation company for £1.5m.

FilmFair was the London-based UK subsidiary of FilmFair Inc and the company produces commercials and animated films for children including Paddington Bear and the Wombles.

Mr Robert Phillips, the Central managing director said: "FilmFair's programme output will enable us to participate more fully in the expanding international market for material for children's animated programmes."

Castrol, Burmah Oil's lubricants subsidiary, is to pay £5.5m for Spectra Automotive and Engineering Products, which makes aerosol paints and waxes.

Castrol intends to run Spectra as a separate division but hopes for benefits from using its own distribution network. Spectra reported profits of £187,000 on sales of £3.08m in the six months to July 31.

Tootal, the textile group which owns 63 per cent of Spectra after its takeover of Sandhurst Marketing, has agreed to accept the 95p cash offer, which was announced after the market closed yesterday. Spectra shares added 7p to 80p after an announcement of talks about a possible bid.

PRIESKA COPPER MINES (PROPRIETARY) LIMITED

Reg. No. 68/03032/07

(Incorporated in the Republic of South Africa)

Declaration of Interim Ordinary Dividend No. 7

The following interim dividend has been declared for the year ending 30 June 1987:

Interim ordinary dividend No. 7 of 30 cents per ordinary share.

The dividend has been declared payable to members registered in the books of the Company at the close of business on Tuesday, 20 January 1987.

The dividend is payable subject to conditions which can be inspected at the registered office of the Company.

Warrants in payment of the dividend will be posted on or about 23 January 1987.

By order of the Board

Anglovaal Limited

Secretaries

per: E. J. Thomas

5 January 1987

Directors: D. J. Crowe* (Chairman), R. P. Fitts, S. E. Harrow D.M.S., R. L. L'Esperance, C. S. Mennil, E. R. J. Neunshuis, R. M. Pagan, R. A. E. White

Alternate Directors: W. W. Meier, D. A. Baines, A. J. Brink, M. D. Harrow

British, American

Castrol expansion

By Clay Harris

Castrol, Burmah Oil's lubricants subsidiary, is to pay £5.5m for Spectra Automotive and Engineering Products, which makes aerosol paints and waxes.

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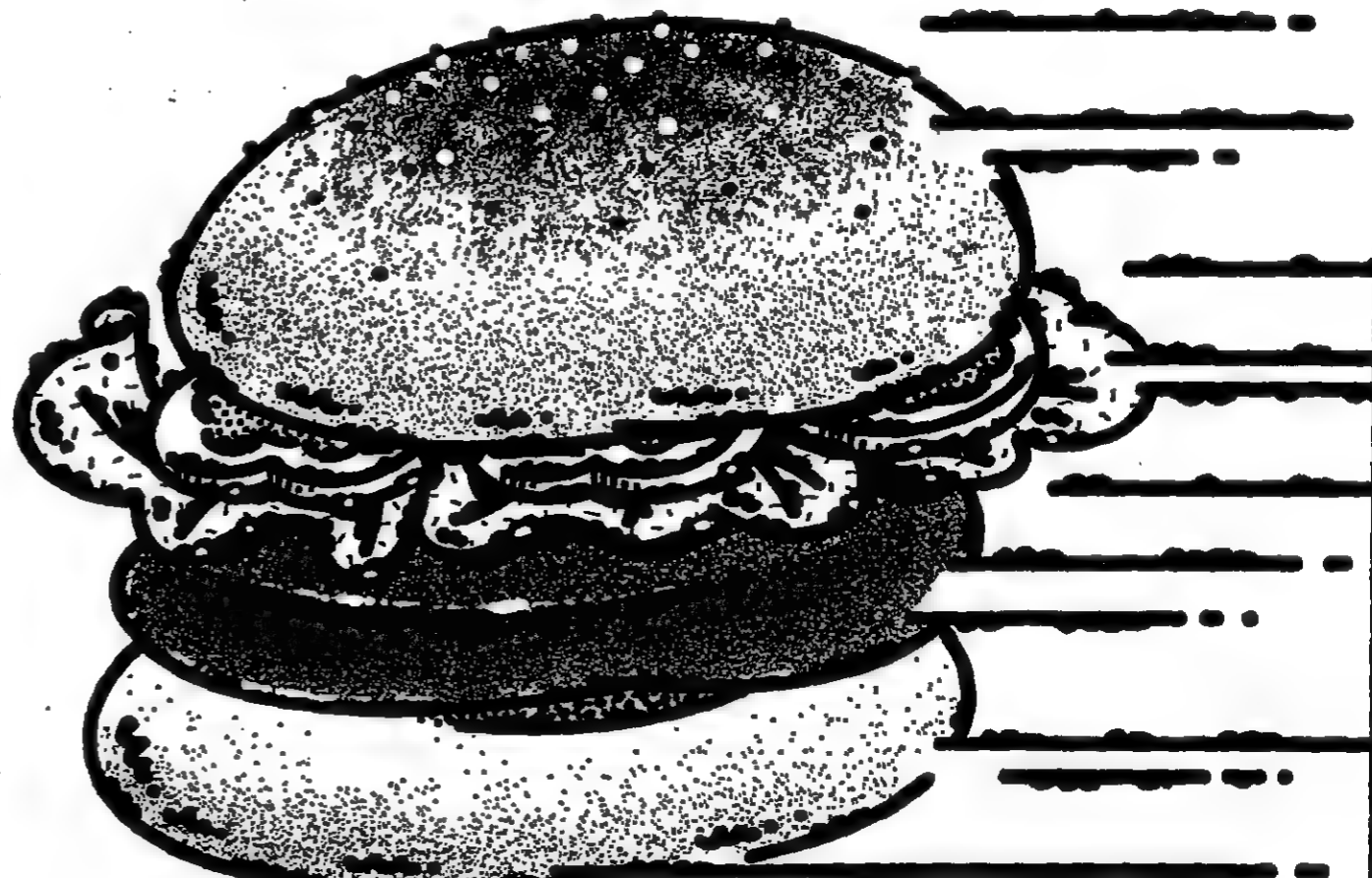
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We make sure America gets its fast food fast.



You don't waste time when you're supplying names like McDonald's.

In the United States, Dalgety guarantee the client and consumer top service through the biggest single fast food distributor in the world.

And in Canada, Brazil and Mexico too. It's one more way we're into the food business on an international scale.

In the UK, for instance, Dalgety brands are household names.

Golden Wonder with its famous crisps and pot noodles.

And Fred the Flour-Grader, famous for Homepride flour these days.

Among petfoods, winners like Winalot, Prime, Bonio and Kantomat.

Not that strong brands are all we have to offer.

Dalgety

A name that goes from strength to strength.

All round the world, the name Dalgety is also famous for food in bulk.

We sell farmers animal feed and seeds, then sell the graincrop to millers, and millers' flour to bakers.

Brewers buy our malt for their beer. We're a major world force in commodities like cocoa, coffee and sugar.

In all these ways and more, Dalgety has become a powerful name in the world's food business.

And no one gets there by being slow off the mark.

Granville & Co. Limited
8 Lower Lane, London EC3R 8EP
Telephone 01-621 1212
Member of FIMBRA

Granville Davis Coleman Limited
27 Lower Lane, London EC3R 8OT
Telephone 01-621 1217
Member of the Stock Exchange

I.G. INDEX

FT for January

1,525-1,531

Tel: 01-628 5699

Gencor Group

Gold Mining Companies' Results
for the year ended 30 September 1986

Name of Company	Tons Mined '000	Gold Produced kg	Net Profit Rm	Dividends cents per share
Bracken	954	3,253	17.1	100
Kinross	2,155	13,323	88.1	380
Leslie	1,409	3,556	12.1	60
Unisel	1,376	9,547	68.4	190
Winkelhaak	2,376	13,594	109.2	495

Average Gold Price Received R26,328 per kg (1985 R20,427)

Points made in the Statements by the Chairmen
Mr. C. R. Netscher and Mr. S. P. Ellis

BRACKEN (Company Number 59/01/24/04)

The future of the mine continues to depend on the exposure of new ore reserves by development. However, the area remaining to be developed is very limited. At best the mine can be expected to maintain its present milling rate albeit at a reduced grade, for the foreseeable future.

KINROSS (Company Number 63/06224/04)

On the morning of 16 September 1986 a serious fire occurred and tragically 177 persons lost their lives; thankfully, more than 2,400 were successfully evacuated.

The loss of life is the highest recorded in a single accident in the history of gold mining in South Africa. It caused deep shock and sorrow throughout the entire mining industry, which continually makes strenuous efforts to develop and maintain safe methods and standards in very diverse and difficult conditions.

Outlook: Tonnage and grade is expected to be maintained at the same levels as those attained in 1985.

LESLIE (Company Number 59/01/24/04)

The future of the mine continues to be largely dependent on the exposure of ore reserves in the Western area, where the majority of the development is being carried out. To a large degree the results have been disappointing but development is continuing on a more selective basis.

UNISEL (Company Number 72/10604/04)

Tonnage is expected to remain at the same levels as that achieved in the 1985 financial year. The yield can be expected to decline marginally with a larger proportion of the lower grade Leader Reef included in the mix. The ratio of the 3 reefs encountered on Unisel is constantly reviewed to ensure the balanced depletion of the reserves within the constraints of maintaining an acceptable yield.

WINKELHAAK (Company Number 55/03464/04)

The company is sinking a new twin-shaft system (No 6 Shaft) approximately 3.1 kilometres to the east of No 5 Shaft. The main shaft system is planned to be in production in 1992, but early stopping from the ventilation shaft should start by the end of 1988. This new shaft will replace declining reserves at the No 5 Shaft and, in addition, could increase the mine's production rate to 225,000 tons per month.

All the above companies are incorporated in the Republic of South Africa.
London Secretaries: Gencor (UK) Limited, 30 Ely Place, London EC1N 6JA.

\$100,000,000

Syndicated standby letter of credit backing commercial paper issuance to



News Corp Finance Limited
(Incorporated with limited liability in the Cayman Islands)

Arranged by: Mellon Bank

Participants:
Mellon Bank
Australia and New Zealand Banking Group Limited
Barclays Bank PLC
RepublicBank Dallas
State Bank of New South Wales
J. Henry Schroder Bank and Trust Company

Commercial Paper Dealer:
Goldman Sachs Money Markets Inc.

The undersigned acted as agent in this transaction.



Mellon Bank

BEAR STEARNS

We are pleased to announce that the following have become Associate Directors:

Amsterdam

Tom Paulus

London

Mark S.S. Swan

Bear, Stearns & Co. Inc.

New York/Atlanta/Boston/Chicago/Dallas/Los Angeles/San Francisco
Amsterdam/Geneva/Hong Kong/London/Paris

December 1986

NOTICE OF EARLY REDEMPTION

ÖSTGÖTABANKEN
U.S.\$20,000,000
Subordinated Floating Rate Notes due 1990

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Fiscal Agency Agreement dated as of 28th July 1985, between Östgötabanken (The "Issuer") and Banque Indosuez Luxembourg, as Fiscal Agent, all the above mentioned Bonds (The "Bonds") will be redeemed on 6th February 1987 (The "Redemption Date") at a price of 100 per cent of their principal amount.

Payment will be made upon presentation and surrender of the Bonds at the Paying Agencies listed below, together with all appropriate coupons maturing subsequent to the redemption date. The amount any missing, unreturned coupons will be deducted from the sum payable due for payment. Interest on Bonds shall cease to accrue from and after the redemption date. Payments will be made at any of the following Paying Agencies:

Banque Indosuez Luxembourg
Banque Indosuez London
Östgötabanken Stockholm
Banque Indosuez OBU Bahrain
Indosuez Asia (Singapore)
Singapore
Fiscal Agent

January 6th, 1987

APPOINTMENTS

Hambro forms new company

Subsequent to the formation of J. O. HAMBRØ & CO and the acquisition and setting up of its operating subsidiaries the group has now made the following appointments:

J. O. Hambro & Co. Mr. Joseph Hambro, group chairman; Mr. Rupert Hambro, group managing director; Mr. Richard Hambro and Mr. James Hambro, executive directors; and Mr. David Harland, group finance director. J. O. Hambro Business Development & Communications Group: Mr. Rupert Hambro, chairman; with Mr. Harland and Mr. David McDonough appointed joint managing directors. J. O. Hambro & Partners (Corporate Finance and business development): Mr. Rupert Hambro, chairman; Mr. Harland managing director; Mr. James Hambro, Mr. Robert Walker and Mr. Andrew Nissen, executive directors. McDonough Associates (corporate communications): Mr. David McDonough, chairman and managing director; Mr. Christopher Tate, executive director; and Miss Susan Morris, Miss Katherine Bissik and Miss Sue Wister, associate directors. J. O. Hambro Investment Management (members of FIMBERA): Mr. Richard Hambro, chairman; Mr. David Chaplin, managing director; and Lord Bahnel, executive director.

Mr. D. G. Barber has been appointed a director of GIRO-BANK, responsible for corporate banking and regions.

Mr. John Beweridge, recently financial secretary to the Crown Colony of Hong Kong, has been appointed a director of F. AND TROST.

Mr. K. L. Butler, Mr. R. P. Fosse and Miss J. M. L. Taylor have been appointed directors of the main board of JARDINE THOMPSON GRAHAM.

Mr. Anthony Arthur Hall, managing director of REA BROTHERS (GUERNSEY), has been appointed a director of the parent company Rea Brothers Group.

Mr. Raymond Mombert, chairman of CAMPBELL'S UK, has additionally been appointed to the Campbell's European advisory board.

MISS LANCASTER has appointed Mr. Carol Gentry, Mr. Isabel Greenwood and Mr. Christine Hastings to the board.

BACON & WOODROW, consulting actuaries, has appointed Mr. R. E. Davies, Mr. I. Edwards, Mr. N. D. Fitzpatrick, Mr. A. Hale and Mr. P. S. Shier as partners.

Mr. T. B. Collins has resigned as a director, and Mr. Brian Picken Davis has been appointed a director of A. G. STANLEY HOLDINGS.

Mr. David Haslewood has been appointed chief executive of CUTHBERT BEATE UNDERWRITING.

Mr. Michael R. Brooks has retired from the board of MINET HOLDINGS, and Mr. Robert W. Batson has been appointed a director.

Mr. F. P. Boedink, Mr. J. L. L. M. Van Lennep and Mr. R. J. F. Weyers have been appointed directors of C. CEARNIKOW from January 1.

Mr. Eugene R. Callier, Jr., a former managing director of Goodyear Great Britain, has been selected vice president for original equipment tyre sales world-wide for THE GOODYEAR TYRE & RUBBER COMPANY. He replaces Mr. Douglas F. Bull, who is taking early retirement.

Mr. Stephen Waley-Cohen has been appointed a non-executive director of PUBLISHING HOLDINGS. He is chief executive of Maybox Group (which owns and manages six West End theatres).

Union Discount rearrangement

THE UNION DISCOUNT COMPANY OF LONDON has rearranged members in the group. The discount house business will be undertaken by a new wholly-owned subsidiary, Union Discount Company, which the directors are: Mr. G. R. Gilchrist, chairman, Mr. R. F. A. Balfour, Mr. D. J. Lyons, Mr. R. M. Munro, Mr. S. A. Whitney-Lang, Mr. A. J. Auld, Mr. D. J. Baskerville, Mr. R. R. Bowley, Mr. C. H. L. Pritchard and Mr. J. R. Thursfield. The Union Discount Company of London has become a holding company with an unchanged board.

Board changes at Barings

BARING BROTHERS & CO has appointed the following directors: Mr. P. E. Bage, Mr. J. M. de Bunsen, Mr. N. R. Gold, Dr. F. Haverkamp, Mr. M. J. Packman, Mr. J. R. Peers, Mr. J. H. T. Russell and Lord Verulam. Mr. N. Bates, Mr. O. J. Boyle, Mr. R. Dillies, Mr. P. M. Hitchcock, Mr. R. C. Kirby and Mr. O. S. Strangstad become assistant directors. Baring Investment Management has appointed Mr. R. F. Ransley, Mr. P. C. Drake and Mr. G. R. C. Hubbard as directors, and Mr. R. M. Allanson, Mr. G. J. W. Guza and Mr. M. Headman as assistant directors. Mr. R. J. Dent has retired as a director of Baring Brothers & Co. He will remain on the board of Barings as a non-executive director. Baring International Investment Management has appointed the following to the board of its subsidiary Baring International Fund Managers which manages the company's range of offshore unit trusts and is the investment manager of China and Eastern Investment Co. Mr. Fajie Ikessa, based in Tokyo, specialises in Japanese equity investment; Mr. Richard Chambers-Trench, based in Hong Kong, specialises in the Pacific stock markets with particular responsibility for Hong Kong; Mrs. Kate Woollett, who set up the company's unit trust marketing organisation, is based in London and has overall responsibility for offshore fund marketing.

DAVID S. SMITH (HOLDINGS) has appointed Mr. Nigel Chantler as managing director of Abbey Corrugated, a wholly-owned subsidiary, and a director of David S. Smith (Holdings). Mr. Brian Smith and Mr. Neil Greig are appointed joint chairmen and joint chief executives of St Regis Packaging, a wholly-owned subsidiary.

Mr. N. A. Whitall has been elected chairman of the BRITISH IRON & STEEL CONSUMERS' COUNCIL. Mr. Antony Whitall is chairman of BSG International, Ramsomes Sims & Jefferies, Turrie Corporation, and the Engineering Industries Training Board. He is also a director of APV Holdings.

Mr. Len Harvey has been appointed chairman and managing director of CAPITAL MARKETS & TREASURY SERVICES (ASIA). This newly-formed company will be based in Hong Kong and is a wholly-owned subsidiary of UK money brokers, Mayflower Group. The other member of the board is Mayflower director Mr. Michael E. R. Young who is also managing director of Capital Market & Treasury Services.

The committee of the LLOYD'S UNDERWRITING ASSOCIATION for 1987 has elected Mr. J. M. G. Haynes as chairman and Mr. C. E. Baxter and Mr. C. A. G. Keeling as deputy chairmen.

LAWSON MARDON has made the following appointments: of Smith Brothers (Whitehaven) and retains responsibility for production. Mr. S. Lavery is made technical director of Cello-gia.

Mr. David R. E. Smith, who took over as chief executive of DUNFERMLINE BUILDING SOCIETY on January 1, has been co-opted to the board. He succeeds Mr. Walter Hutchison, who has retired.

At ASSOCIATED BOOK PUBLISHERS Mr. D. W. Alcock is retiring as deputy group chairman, and Mr. Michael Turner takes over in addition to being chief executive. Mr. David Evans is appointed deputy group managing director. Three new directors have been appointed: Mr. W. J. Mackarell, Mr. R. Stilleman and Mr. A. Turnbull. Mr. William Mackarell is currently managing director of Australian subsidiary, ABP Investments (Aust) Pty, and Mr. Alan Turnbull is president of The Carwell Company, a Canadian subsidiary. Mr. Richard Stilleman is assistant managing director of Associated Book Publishers (UK).

IN SHOPS, a division of the Midland Development Group, has appointed Mr. John Hossel as managing director. Company founders, Mr. Alan Fitzpatrick and Mr. David Newman, joint managing directors, become joint chairmen. Mr. Hossel was with the Owen Owen Group on the main board.

Four new partners have been promoted from within the practice by the Leeds regional headquarters of FEAT MARWICK. They are management consultant Mr. Richard Coalbeck, corporate recovery adviser Mr. Martha Shaw, taxation specialist Mr. John Widdowfield, and management services consultant Mr. Peter Robinson.

Mr. Nigel Latham has been appointed deputy managing director of V. BERG & SONS.



Five Arrows Fund N.V.

Established in Curacao (Netherlands Antilles)

Notice of Annual General Meeting of Shareholders to be held on February 5, 1987

Notice is hereby given that the Annual General Meeting of Shareholders of Five Arrows Fund N.V. ("the Company") will be held on February 5, 1987 at 4.00 o'clock p.m. (local time) at the offices of the Company, 6 John R. Gortzweg, Curacao (N.A.) for the following purposes:

- To approve the Company's annual accounts for the financial year ended December 31, 1985.
 - To elect a Managing Director for the ensuing year.
 - To elect an Advisory Board for the acts of the Managing Director and approve the acts of the Managing Director and the Advisory Board.
 - Proposal to appoint Independent Auditors of the Company for the ensuing year.
 - Proposal to amend the Articles of Incorporation.
 - To authorise someone to pass and sign the Deed of Amendment.
 - To transact any other business as may properly come before the meeting.
- The official agenda of the meeting together with the annual accounts for the Company's financial year ended December 31, 1985 as well as a copy of the draft amendment may be inspected by all Shareholders at the offices of its agent banks, viz. N. M. Rothschild and Sons Limited, London—Banque Paribas, Brussels—Banque Paribas—Banque Privée S.A., Geneva—Rothschild Bank A.G., Zurich—Rothschild Australia Ltd., Sydney.
- Holders of registered shares shall be entitled to vote at the meeting in person or by proxy. Holders of Bearer Shares shall be entitled to vote at the meeting on presentation of their share certificates or of a voucher given by any of the Company's agent banks stating that certificates in respect of the number of shares specified in the voucher have been deposited with such agent bank and will remain in deposit until the end of the meeting.

The Managing Director
Intimis Management Company N.V.

NEVI
A/S NEVI

DKK 600,000,000 Floating Rate Notes due 1993
Tranche A of DKK 300,000,000

In accordance with the provisions of the Notes, notice is hereby given that, for the three months period, 6th January, 1987 to 6th April, 1987, the Notes will bear interest at the rate of 10 7/8 per cent. per annum. Coupon No. 2 will therefore be payable on 6th April, 1987 at DKK 2,734.37 per coupon for Notes of DKK 100,000 nominal.

Agent Bank
KANSALLIS-OSAKE-PANKKI
London Branch

This announcement appears as a matter of record only.

Time Inc.

U.S.\$250,000,000
Multi-Option Facility

Arranged by

Swiss Bank Corporation International Limited

Lead Managers

Deutsche Bank AG
Swiss Bank Corporation

Orion Royal Bank Limited
Union Bank of Switzerland

Managers

Bank of Tokyo Trust Co.
Barclays Bank PLC
Crédit Lyonnais
The Mitsubishi Bank, Limited
Société Générale

Banque Nationale de Paris
Canadian Imperial Bank of Commerce
Credit Suisse
National Westminster Bank PLC
The Sumitomo Bank, Limited

Toronto Dominion Bank

Tender Panel

Affiliates of the above Lead Managers and Managers and the following additional Members.

Nomura International Limited
S. G. Warburg & Co. Ltd.

PaineWebber International

Facility and Swingline Agent

Swiss Bank Corporation

Tender Panel, Issuing and Paying Agent
Orion Royal Bank Limited

December, 1986

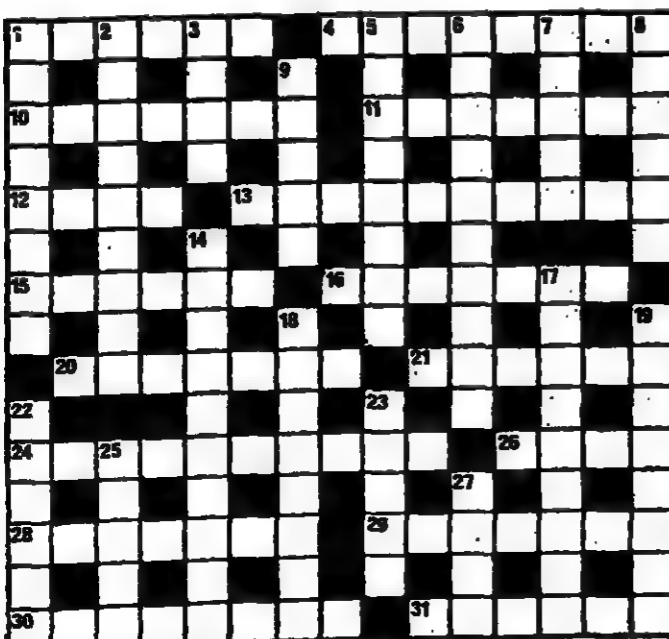
Swiss Bank Corporation International Limited

[illegible][illegible]

Schroder Unit Trust Managers Ltd		Tyndall Managers Ltd(a)(b)(c)	
Enterprise House, Portsmouth	0705 822735	401 St John St, London EC7 0GE	01-257 6400
American	130.0	Australian Securities	73.0d
Asia (Asia)	142.0	(Aussian) (Unit)	70.0
Europe	92.0	Canada	247.0d

[illegible]**FT CROSSWORD PUZZLE NO. 6,219**

DANTE



ACROSS

- 1 How to march on foot (5)
 - 4 Propose that the main difference should be in money (8)
 - 10 A child of three allowed on an excursion (7)
 - 11 Finally attained a high position (5, 2)
 - 12 Cross, we hear, and uncouth (4)
 - 13 To borrow money and move away (risky (5, 3, 2))
 - 15 Arms displayed in a hostile way? (6)
 - 16 Possibly spy on fashionable medium (7)
 - 20 Held up low or flower (7)
 - 21 Start games of tennis in the open air (5)
 - 24 Not against change though it's the wrong condition for it (10)
 - 26 Family loaf started off in oven (4)
 - 28 Can't provide a friendly solution (7)
 - 29 Humble subject (7)
 - 30 Do without and give to others (8)
 - 31 Shout about jellied eel in the salad, perhaps (6)
- DOWN**
- 1 New form of travel in space (8)
 - 2 Salt-water spray (9)
 - 3 Water may be found in a creel, squirming (4)
 - 5 Not very bright but in charge (8)
 - 6 Brave group used to exert (5, 4)
 - 7 Exped to put a new idea to number (5)
 - 8 Take on work (5)
 - 9 Sacks brought up to sit or perhaps (5)
 - 14 Violent alien with a beard breeds hate (10)
 - 17 Set up organisation for education and research (9)
 - 18 Down here fast changes are required (8)
 - 19 A lot of strange variety G-S (5)
 - 22 Is to touch down at a spot in the ocean (5)
 - 23 Soft cry of pain produces pursure, but not of the lips (5)
 - 25 Wrongly equated with a mile (5)
 - 27 It's bent on submission (4)
- Solution to Puzzle No. 6,215**
- | | | | | | | | | | |
|----|---|---|---|---|---|---|---|---|----|
| 3 | A | V | E | N | E | R | E | D | 1 |
| 1 | C | R | E | E | L | E | D | 2 | 6 |
| 2 | A | S | T | E | R | S | P | R | Y |
| 4 | A | L | I | E | 7 | W | A | T | ER |
| 5 | A | L | I | E | 7 | W | A | T | ER |
| 6 | A | L | I | E | 7 | W | A | T | ER |
| 7 | A | L | I | E | 7 | W | A | T | ER |
| 8 | A | L | I | E | 7 | W | A | T | ER |
| 9 | A | L | I | E | 7 | W | A | T | ER |
| 10 | A | L | I | E | 7 | W | A | T | ER |
| 11 | A | L | I | E | 7 | W | A | T | ER |
| 12 | A | L | I | E | 7 | W | A | T | ER |
| 13 | A | L | I | E | 7 | W | A | T | ER |
| 14 | A | L | I | E | 7 | W | A | T | ER |
| 15 | A | L | I | E | 7 | W | A | T | ER |
| 16 | A | L | I | E | 7 | W | A | T | ER |
| 17 | A | L | I | E | 7 | W | A | T | ER |
| 18 | A | L | I | E | 7 | W | A | T | ER |
| 19 | A | L | I | E | 7 | W | A | T | ER |
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| 21 | A | L | I | E | 7 | W | A | T | ER |
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| 26 | A | L | I | E | 7 | W | A | T | ER |
| 27 | A | L | I | E | 7 | W | A | T | ER |
| 28 | A | L | I | E | 7 | W | A | T | ER |
| 29 | A | L | I | E | 7 | W | A | T | ER |
| 30 | A | L | I | E | 7 | W | A | T | ER |
| 31 | A | L | I | E | 7 | W | A | T | ER |

Solution to Problem No. 671

GRAVEYARD
 DARTS EASTCOAST
 REDLATER
 NULLITY
 SMAD
 CONTEM
 WENGER
 RAILDERS
 TOUGH
 CODE
 BOUN
 SIF
 SPANISKILL

(continued)

Financial Times Tuesday January 6 1987

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

Table with multiple columns listing insurance and overseas funds, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

Table listing insurance companies and their services, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

Table listing overseas funds and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

Table listing money funds and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas funds and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

MANAGEMENT SERVICES

Table listing management services and their providers, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

TRUST FUNDS

Table listing trust funds and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

MONEY MARKET BANK ACCOUNTS

Table listing money market bank accounts and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

TRADITIONAL INVESTMENTS

Table listing traditional investments and their performance, including names like Swiss Life, TSB Life, and various fund names with their respective values and percentages.

NOTES

Notes section containing various financial notes, disclaimers, and additional information regarding the funds and services listed.

TRADITIONAL INVESTMENTS

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COMMODITIES AND AGRICULTURE

ITC's biggest creditors hold on to tin stocks

BY STEFAN WAGSTYL

BANKS WHICH were left holding tin after the International Tin Council defaulted owing \$900m, have split into two camps in dealing with their metal stocks.

Most of the council's 16 banking creditors which had relatively small tin and small amounts of metal on collateral have sold part or all of their stock in the last few months. But the biggest four creditors with the largest stocks have sold little or nothing.

Shearson Lehman Brothers (a subsidiary of American Express), Bank Bumiputra, Malayan Banking and Bank of Tokyo were between them owed about \$200m when the tin council ran out of money administering an inter-government price support pact in October.

Metal traders estimated that the combined tin stocks of these companies totalled between 40,000 and 50,000 tonnes with Shearson alone holding about 20,000 tonnes.

Their main reason for not selling is that the holdings are too large to dispose of quickly without forcing prices down. They have also been under pressure to steady the market from the Association of Tin Producing Countries, a group of seven nations including Malaysia, Indonesia and Thailand. The two Malaysian creditor banks are partly state-owned.

It seems that sales by smaller creditors have been largely prompted by the recovery in prices for a lot of just over \$3,450 a tonne in spring to about \$4,500 a tonne now. Several banks with large holdings of 1,500 tonnes or so appear to have decided to cut their losses. They clearly felt it was not worth the time and effort of waiting for prices to

reach the average break-even point of about \$3,900 a tonne. The banks decline to comment on their tin stocks and disposals. But traders say creditor banks which have sold all their tin include Arbuthnot Latham, ANZ, Banque Indosuez and Trustee Savings Bank.



and Trustee Savings Bank. The buyers have largely been metal traders who have been purchasing either for onward sale to consumers or for speculative investment on their own accounts. Brokers say Shearson, J. H. Rayner (Mining Lane), a subsidiary of S & W Berford and Anglo Chemical, part of Fibro-Salomon, the US financial group, have been among the active buyers.

The ATPC estimates that Western world stocks—held by banks, brokers and mines—fell from 108,000-116,000 tonnes in October 1985 to 70,000 to 75,000 tonnes at the end of November. The stock is expected to continue falling with most producers forced to cut output by the drop in prices from above \$8,500 a tonne when the ITC was in the market. Nevertheless, current stocks still represent about six months' non-

communist world consumption. Metals and Minerals Research Services, a UK company, puts estimated 1986 mine output at about 130,000 tonnes, down from 150,000 last year. Consumption has risen slightly in the West to 155,000 tonnes (150,000 tonnes in 1985) but Eastern bloc countries have taken advantage of lower prices by turning from net exporters into net importers during 1986, says MRS.

MRS argues that the marginal operating cost of producing the West's tin—in other words the break-even point of mines which must stay in production to satisfy consumption—is about \$2,500 to \$2,750 a tonne. However, other analysts believe this projection may be over-optimistic from the producers' point of view. They believe that the potential for cost-cutting by producers, responding to continuing low prices, has been underestimated.

Meanwhile, the ITC's bankers, as well as creditor metal brokers, are continuing to pursue their claims against the council by court action. Judgment is expected in mid-January in a hearing in which the ITC is asking the High Court to throw out a winding-up petition put forward by Amalgamated Metal Trading, a London metal exchange broker, and supported by Kleinwort Benson, the merchant bank. The tin council has argued that as inter-government body established by treaty, it is immune from legal action.

Three creditor banks, Australia and New Zealand Banking Group (ANZ), Kleinwort Benson and Arbuthnot Latham have issued writs against the ITC's 22 member-states and the European Commission to recover about \$15m lent to the council.

Brent oil price near 12-month high

By Lucy Kalinowski and Richard Johnson

NORTH SEA oil prices yesterday rose to their highest levels for nearly a year, with cargoes of Brent at one point trading at \$18.25 for February delivery, about 15 cents higher than Friday's close, before slipping back later in the day.

The market believes that Opec will succeed in fixing oil prices at around \$18 a barrel from February 1, and took further encouragement from yesterday's news that Iraq had adopted fixed prices from January 1, and that other Opec members were taking a hard line with customers over the shift to fixed prices.

Brent prices yesterday were almost trading at parity with Opec's new price structure. Traders said that parity would involve a price for Brent of \$18.50 a barrel. Since the agreement by Opec on prices and production was agreed last month the US market has risen to a 20 cent premium in the UK. By yesterday afternoon West Texas Intermediate was trading at \$18.05, about 10 cents down on the day. This means that WTI is now trading at a 20 cent premium to Brent, compared with a normal premium of about 70 cents. Some traders yesterday attributed this to a sharp drop in stocks in the US.

Iraq's pricing decision was seen yesterday by the industry and traders as a fulfilment of the pledge made by Mr Qasbi, the Minister of Oil, of Baghdad's willingness to co-operate in the stabilisation of prices despite its refusal to accept any output quota unless it was given parity with Iran.

The rate for Kirkuk crude pumped through the pipeline to Ceyhan on Turkey's southern coast has been set at \$17.00 per barrel while Basrah Light lifted at the Yambu terminal on the Red Sea has been priced at \$17.50 per barrel.

Market analysts said that the prices were more or less in line with the price structure established by the other 12 members of Opec though slightly on the competitive side. The new rates are applicable from January 1 for customers with contracts containing clauses laying down fixed prices in the event of Opec agreeing a structure.

The United Arab Emirates has also informed its Western clients that it will be producing operations that its fixed prices come into force from the beginning of the year. The companies involved, which include all the major oil companies, are protesting against the imposition of the new rates, in January rather than from February 1, the date for implementation agreed by Opec because of the need to phase out "net-back" deals (under which crude prices are related to a basket of realisations for products).

Overseas sales dropped from 60 per cent in 1985 to half last year, due to the weakening of the dollar. Currency factors also took their toll on the European market, which accounted for only a scanty 10 per cent of the total.

According to the Israel Diamond Exchange president, over 70 per cent of all of the Israel's largest market for cut diamonds, its share in total

overseas sales dropped from 60 per cent in 1985 to half last year, due to the weakening of the dollar.

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BRITISH FUNDS

[illegible][illegible][illegible]

100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000
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WORLD ECONOMIC INDICATORS every Monday—Only in the Financial Times

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AMEX COMPOSITE CLOSING PRICES

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FINANCIAL TIMES

WORLD STOCK MARKETS

WALL STREET

Santa finally delivers the goods

INVESTORS continued their celebration of the new year yesterday by propelling Wall Street stock prices to record levels in heavy trading, writes Roderick Oram in New York.

Encouragement was given by credit markets where bond prices rose about two-thirds of a point on light volume amid hopes of lower interest rates.

The Dow Jones Industrial set a record closing at 1,971.32. The gain of 44.01 points also broke the record for the biggest points rise in a day set in November, 1982. The broad market followed the lead of the blue chips with the S & P 500 jumping 5.74 points to 252.19 and the New York Stock Exchange composite index gaining 3.38 points to 144.39.

Volume accelerated to 181.85m shares with rising issues outpacing those declining by a margin of 10-to-one.

Among the blue chips, IBM was up \$1% to \$123.25, AT & T was ahead \$% to \$25.75, General Electric advancing \$% to \$29.00, McDonald's rose \$% to \$64.00 and Eastman Kodak gained \$% to \$71.00.

The market's strong follow through from Friday's surge ensured a Santa Claus rally, an upturn which occurs at

the end of most years. On average the rallies have brought gains of 1.84 per cent during the last five trading days of the old year and the first two of the new. In the last two sessions, the NYSE has gained about 4 points, more than compensating for losses over Christmas.

Some analysts cautioned, however, that robust share buying was partly a reaction to the heavy tax-related selling before year-end. Moreover, a lot of yesterday's upturn was attributed to buy programmes triggered when stock index futures rose to a large premium over the underlying shares.

Toys "R" Us, a leading retailer, jumped \$2% to \$31.10 after reporting a 27 per cent rise in sales over the eight-week Christmas season. Adjusting for new stores, sales increased 12 per cent.

Retail stocks have slipped recently on investor concern that the late sales spurt was too little, too late to produce a good Christmas period. Yesterday brought some recovery in share prices with Sears, Roebuck rising \$1 to \$42, J. C. Penney gaining \$2% to \$75.00 and Wal-Mart advancing \$1% to \$47.00.

Federated Department Stores was up \$1% to \$8.50.

Bank stocks generally were strong yesterday as falling interest rates eased the debt service burden of their hard-pressed clients. J. P. Morgan rose \$% to \$87.00. Chase Manhattan was up \$1% to \$37.00. Manufacturers Hanover advanced \$1% to \$47.00. Citicorp rose \$1% to \$53.00. Security Pacific added \$% to \$35.00 and First Chicago gained \$1% to \$30.00.

The drugs sector performed well yesterday with Merck gaining \$2% to \$128.00.

SmithKline Beckman advancing \$% to \$97, Squibb up \$1% to \$117.00 and Pfizer ahead \$1% to \$63.00.

Walt Disney gained \$2% to \$47.00 following favourable comments from a Merrill Lynch analyst. Mr Hal Vogel believes that better attendance at the company's theme parks will lift first quarter earnings.

The atmosphere in the credit markets was bullish as the conviction increased that interest rates were heading down. Some favourable economic news was found in the Purchasing Managers' composite index even though its overall message of a pick up in prices was unwelcome.

The Administration's delivery of its fiscal 1987 budget to Congress had no impact on markets. The proposals will be heavily altered by congressional action so the final effect on the economy cannot be judged for some time.

Trading was light, particularly at the long end, and prompted in part by covering of short positions. The price of the 7.50 per cent benchmark Treasury long bond rose 1/4 of a point to 101 1/4 at which it yielded 7.34 per cent.

Short term interest rates remained firm, however, partly because the Fed funds rate was still on the strong side. Although it has come down from extreme levels brought on last week by year-end financing operations of banks, it is likely to remain at the top end of the 6 per cent range for a while yet until the seasonal influences are fully worked out.

The Federal Reserve supplied liquidity with three-day system repurchases when the Fed funds rate stood at 6 1/4 per cent. It eased later to 6 per cent.

EUROPE

A firm tone set despite mixed tempo

MOST EUROPEAN bourses began the first week of the new year on a firm note yesterday, in some cases encouraged by the rally on Wall Street and the dollar's recovery. Trading, however, remained quiet in a number of centres and the size of advances varied considerably.

Madrid reached yet another peak as the bourse general index advanced 4.94 from its record on Friday to 216.98. The strike by ground crew of the domestic airline Aviaco, which brought cancellations on the eve of today's Epiphany holiday, appeared to have little impact on the market.

Strongest sectors were steels and constructions, while utilities saw Iberdrua up 5.2 to 189.2 per cent on nominal market value.

Telefonica gained 4.2 to 179.2 per cent, and among advancing banks Popular added 60 to 1,500 per cent and Central 30 to 1,000 per cent. Bilbao, however, was unchanged at 1,410 per cent.

Frankfurt finished steady to slightly higher on bargain-hunting following Friday's sharp losses. But the mood was fairly cautious in advance of the elections on January 24 and despite the lift from Wall Street, the firmer dollar and strong German bonds.

The Commerzbank index calculated at mid-session, gained 19.1 to 2,035.5 after a strong start to trading.

In the electrical sector, Siemens gained DM 3.50 to DM 735, well off its early high of DM 747.50. The company is buying out most of the operating assets of Telecom Plus of the US.

Most major stocks advanced on average by DM 1 or DM 2, but stores group Asko gained DM 25 to DM 1,985 and electrical PKI was DM 20 higher at DM 1,175.

Among mainly higher cars, Daimler and BMW both gained DM 8 to 1,220 ex-rights and DM 507 respectively. VW, however, eased 50 pgs to DM 418.50.

Bonds had an active session and closed firmer on foreign and domestic demand. Long-dated maturities gained about 30 ppg. The Bundesbank sold DM 98.8m worth of paper after selling DM 21.1m on Friday.

Assessments were mixed with a slightly higher bias but the rally that some had expected on Friday failed to materialise. The firmer opening in New York was nonetheless a positive factor.

Among firms international, Royal Dutch added Ft 1.80 to Ft 209.40, Philips 70 cents to Ft 44.40 and Unilever Ft 3 to Ft 52.4. However, KLM dropped in a largely technical correction to its sharp post-Christmas rise, losing Ft 1 to Ft 39.30.

Retail chain Abnol lost Ft 1.30 to Ft 112. The company's turnover fell in 1986 but it expects profits for the year to be higher.

Zurich saw investors returning to buy strongly after a long Christmas and New Year holiday. Share prices closed higher across the board in active trading, buoyed by speculation that Wall Street would rise further.

Jacobs-Suchard, which plans to raise its share capital, gained Sfr 75 to Sfr 9,100. Nestlé advanced Sfr 75, with a Sfr 150 rise to Sfr 9,925.

Chemicals showed little change on the day, but among engineering stocks Brown Boveri made a Sfr 55 gain to Sfr 1,890.

Paris also advanced in an active session as bargain-hunting set in after Friday's fall and sentiment was boosted by New York's rally and prospects that the rail strike might soon be over.

Trading in Paribas' non-voting preferred shares was suspended at Friday's close of Ffr 884 a share in advance of the privatisation of the financial holding company later this month or early next. In the construction sector, Bouygues gained Ffr 60 to Ffr 1,245, while electronics saw Matra up Ffr 158 at Ffr 2,448.

Brussels was the exception in Europe, ending steady to lower in moderate and

fairly dull trading. Market leader Petrofina pushed shares prices down as it lost Bfr 200 to Bfr 9,210 over reports of possible action against American Petrofina. At the start of trading it fell as low as 9,110.

Milan was higher but trading was still fairly thin. Strong banks included Commerciale, up L 400 at L 26,500, and Credito Italiano, which rose L 60 to L 3,610.

Montedison, which said 99.8 per cent of the new shares offered in its subsidiary Iniziativa Meta had been subscribed, added L 30 to L 2,910.

Stockholm rose across the board in a short session before today's holiday for Epiphany. The Veckans Affar all-share index gained 4.7 to 909.7.

Oslo firmed on higher oil prices and new year optimism.

TOKYO

Support for financials provides lift

THE SHARP SURGE in the yen caused share prices to open the year lower in Tokyo yesterday, but they rallied to a higher close as securities house dealers actively bought financial issues, writes Shigeo Nishitani of Jiji Press.

Immediately after the opening, the Nikkei average of 225 select issues lost 86 points from the last session on December 27. But it recovered rapidly to finish the half-day session at 18,820.55, up 119.25.

Volume was sharply down from 255.07m shares traded on December 27, also a half-day session, to 207.52m shares. Advances outpaced declines by 436 to 331, with 178 issues unchanged.

The yen's advance and a possible rise in crude oil prices dampened the market sentiment and investors sold in small lots at the outset. Securities house dealers then actively purchased city and trust banks towards the close to prevent the market indicator from closing the year's first trading day lower. It ended last year with a fall for the first time in 12 years. The buying helped push up the average, but failed to brighten investor sentiment significantly.

Among city banks, Sumitomo Bank advanced ¥140 to ¥2,560, Mitsubishi Bank ¥160 to ¥2,010 and Fuji Bank ¥150 to ¥2,010. Bank of Tokyo scored a daily limit gain of ¥105 to ¥1,040, while Industrial Bank of Japan and Sanwa Bank rose ¥100 and ¥80 higher respectively to ¥2,560 and ¥2,790.

Among brokerages, Nomura Securities was a notable advance, up ¥140 at ¥3,100.

Some constructions were also sought in anticipation of the Government's active measures to boost domestic demand. Kajima was up ¥40 to ¥1,500, Obayashi Corp ¥38 to ¥949 and Toa Harbor Works ¥30 to ¥980.

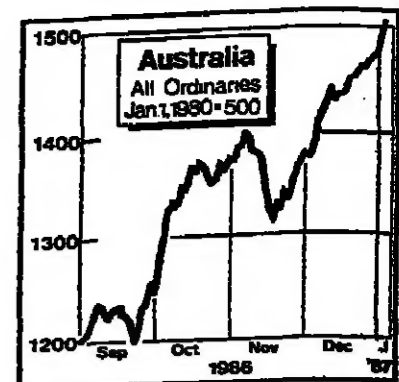
Dainippon Ink & Chemicals topped the active list with 22.21m shares changing hands, advancing ¥51 to ¥815, while Mitsubishi Metal gained ¥43 to ¥563 on the second heaviest trading of 11.78m shares. Market sources said investors sought these issues apparently to reap immediate capital gains as there were no special factors to encourage buying.

Tokyo Electric Power, which opened earlier, finished with a ¥150 gain to ¥8,050. Other utilities also rose, with Kansai Electric Power and Tokyo Gas adding ¥40 each to ¥3,940 and ¥1,160.

On the other hand, the sharp appreciation of the yen triggered selling of blue chips. Issues expected to play a leading role in investigating the market this year declined. NEC lost ¥80 to ¥2,000, Matsushita Electric Industrial ¥50 to ¥2,020 and Hitachi ¥30 to ¥1,080. Toyota Motor took a ¥120 fall to ¥2,080.

Biotechnologies were also cheaper on a wide front. Takeda Chemical dropped ¥30 to ¥2,610 and Dainippon Pharmaceutical also ¥30 to ¥3,310. Only Banyu Pharmaceutical rose ¥30 to ¥1,190.

Bond trading was lacklustre despite the yen's advance and the firm undertone of the US bond market. Institutional investors stayed on the sidelines and the only participants were bank and securities house dealers. The yield on the 5.1 per cent government bond maturing in June 1986 increased from 5.280 per cent on December 27 to 5.280 per cent.



AUSTRALIA

DEMAND for leading industrials, golds and resource issues sent Australia to a record, with most attention focussed on the media sector and the intervention of John Fairfax in the takeover battle for Herald and Weekly Times.

The All Ordinaries index ended 16.2 higher at 1,503, breaking the psychological 1,500 barrier for the first time.

The Fairfax bid for HWT associate Queensland Press reinforced pressure on Mr Rupert Murdoch to improve his offer for HWT and pushed both issues to records. Queensland gained AS3.00 to close at AS20.20, 20 cents above the Fairfax offer price.

HWT rose 20 cents to AS13.80. Advertiser Newspapers, another HWT associate, gained 55 cents to AS5.30. Mr Murdoch's News Corp put on 10 cents to AS19.00, while Fairfax held steady at AS11.20.

Bell Group, owned by Mr Robert Holmes & Court who is also bidding for HWT, rose 26 cents to AS9.66. Its subsidiary, J. N. Taylor, put on 40 cents at AS8.00.

Elsewhere in industrials, Brambles gained 20 cents to AS8.10, Bond Corp gained 9 cents to AS2.68. Elders IXL rose 8 cents to AS4.58.

Among banks, National Australia made the strongest gain, adding 8 cents to AS5.80. ANZ dropped 4 cents to AS5.70, as did Westpac, to AS4.88.

HONG KONG

HEAVY DEMAND from local investors pushed Hong Kong higher and the Hang Seng index gained 12.34 to 2,552.40. Brokers said much of the day's demand focussed on newly-listed Bond Corp International, a subsidiary of Bond Corp of Australia, and the issue closed at the day's high of HK\$2.525, more than double its launch price of HK\$1.18.

Bond Corp International's assets comprise mainly Hong Kong apartments bought by Bond Corp in October for HK\$1.4bn and transferred to its subsidiary.

China Light held steady at HK\$20.99 HK Land by 25 cents to HK\$7.00 and Jardine Matheson gained 20 cents to HK\$22.30. HK Electric advanced 10 cents to HK\$12.90 and Sung Hung Kai Properties gained 10 cents to HK\$18.50.

SOUTH AFRICA

A FIRMER bullion price took golds higher in Johannesburg although trading was moderate in the absence of sellers.

Vaal Reefs closed R20 higher at R397 - the issue traditionally indicates the market trend - while Harties rose R125 to R24.50.

Among industrials Barlows picked up R1 to R20.50 while Rembrandt held steady at R80.5. Chemicals group AE & CI at R14.50 was also unchanged. CNA Gallo added 10 cents to R2.90 and South African breweries was steady at R15.75.

Diamond share De Beers gained 10 cents to R35.75.

CANADA

RALLIES in golds, industrials and mining led Toronto upwards. Canadian Pacific gained C\$4 to trade at C\$18.18 while Laidlaw held steady at C\$19%, as did Husky Oil at C\$11.4.

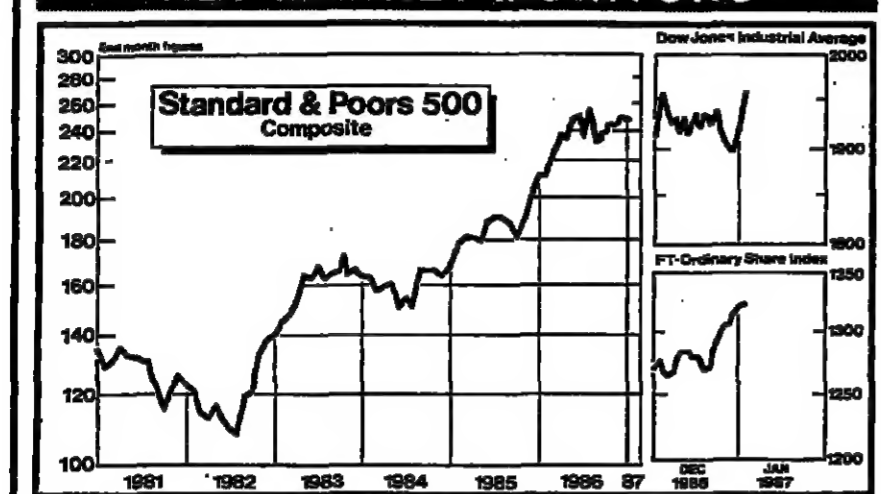
Husky said its chairman Robert Blair had been named to the board of Hutchison Whampoa, a Hong Kong group that agreed to acquire, along with its Hong Kong Electric Holdings affiliate, a 43 per cent stake in Husky.

Among mines, Alcan Aluminium gained C\$14 at C\$40.00.

British Gas was C\$3 cheaper at C\$13.00 while Placer Development was C\$3 higher at C\$31.4.

Montreal was slightly higher.

KEY MARKET MONITORS



STOCK MARKET INDICES	Jan 5	Previous	Year ago
NEW YORK			
DJ Industrials	1,971.32	1,927.31	1,548.20
DJ Transport	840.72	816.38	732.89
DJ Utilities	213.67	210.44	175.89
S&P Composite	252.19	246.45	210.88

LONDON	Jan 5	Previous	Year ago
FT Ord	1,322.8	1,320.2	1,141.8
FT-SE 100	1,880.0	1,881.1	1,428.8
FT-A All-shares	837.72	836.29	690.80
FT-A 500	916.84	916.38	758.08
FT Gold mines	308.8	304.1	287.4
FT-A Long gilt	10.09	7.39	10.47

TOKYO	Jan 5	Previous	Year ago
Nikkei	18,820.55	(c)	(c)
Tokyo SE	1,575.31	(c)	(c)

AUSTRALIA	Jan 5	Previous	Year ago
All Ord	1,503.2	1,488.8	1,021.4
Metals & Mins	739.95	729.1	500.3

AUSTRIA	Jan 5	Previous	Year ago
Credit Aktien	228.95	230.60	245.32

BELGIUM	Jan 5	Previous	Year ago
Belgian SE	3,988.26	4,038.19	2,800.96

CANADA	Jan 5	Previous	Year ago
Toronto	2,042.30	1,988.17	2,080.00
Metals & Mins	3,087.70	3,087.8	2,861.4
Montreal	1,582.80	1,584.51	1,440.80

DENMARK	Jan 5	Previous	Year ago
SE	-	-	235.96

FRANCE	Jan 5	Previous	Year ago
CAC Gen	385.10	382.0	273.5
Ind. Tendance	99.70	97.80	66.1

WEST GERMANY	Jan 5	Previous	Year ago
Faz-Aktien	671.71	668.10	678.74
Commerzbank	2,036.50	2,016.40	2,025.9

HONG KONG	Jan 5	Previous	Year ago
Hang Seng	2,552.40	2,540.08	1,796.59

ITALY	Jan 5	Previous	Year ago
Banca Comm.	732.04	726.16	(c)

NETHERLANDS	Jan 5	Previous	Year ago
ANP-CBS Gen	279.40	277.50	103.0
ANP-CBS Ind	274.90	273.0	283.2

NORWAY	Jan 5	Previous	Year ago
Oslo SE	364.78	361.98	383.24

SINGAPORE	Jan 5	Previous	Year ago
Strait Times	882.24	889.08	616.82

SOUTH AFRICA	Jan 5	Previous	Year ago
JSE Golds	-	1,908.0	1,207.2
JSE Industrials	-	1,428.0	1,072.1

SPAIN	Jan 5	Previous	Year ago
Madrid SE	216.98	212.04	48.40

SWEDEN	Jan 5	Previous	Year ago
J & P	2,483.56	2,471.26	1,798.18

SWITZERLAND	Jan 5	Previous	Year ago
Swiss Bank Ind	698.70	(c)	608.3

WORLD	Jan 5	Previous	Year ago
MS Capital Int'l	381.3	358.8	257.0

COMMODITIES	Jan 5	Previous	Year ago
(London)			
Silver (spot fixing)	363.55p	358.95p	
Copper (cash)	£916.25	£909.25	
Coffee (March)	£1,645.00	£1,633.00	
Oil (Brent blend)	\$18.125	\$18.20	

GOLD (per ounce)	Jan 5	Previous	Year ago
(London)			
London	\$389.25	\$403.25	
Zurich	\$389.70	\$390.25	
Paris (fixing)	\$389.38	\$404.22	
Luxembourg	\$389.50	\$404.00	
New York (Feb)	\$405.00	\$404.00	

LONDON

Weak gilts undermine strong start

THE FIRST trading week of the New Year saw UK securities markets get off to an uncertain start, with gilts giving up some of last week's gains and equities failing to follow Wall Street's advance.

The FT Ordinary index added 2.8 to 1,322.80, while the more broadly based FT-SE 100 index showed a loss of 1.1 to 1,880.0.

A confident statement by Mr Nigel Lawson, Chancellor of the Exchequer, on Britain's economic prospects met with a guarded response in the City of London.

Equities opened firmly, helped by Wall Street's strength on Friday and Mr Lawson's reiteration of the Government's wish to cut tax rates. However, the weakness in gilts undermined this mood and prices began to drift lower in sluggish trading, although the mood did brighten briefly when Wall Street opened with another sharp rise.

With the pound lower in the face of opinion polls showing the Government's lead to have narrowed government bonds slipped lower. Long-dated issues ended about 1/4 lower in this trading.

Oils made little response to the continued firmness in spot oil prices. Britoil held steady at 170p while British Petroleum added 2p to 726p.

Banks turned downwards as some analysts took a bearish stance on profits outlook. Barclays eased after its subsidiary Barclays de Zoete Wedd put out a "sell" recommendation on its parent and fell 10p to 505p, while recent issue TSB eased 1p to 78p.

Chief price changes, Page 31; Details, Page 36; Share information service, Page 28, 29.

SINGAPORE

A LACK of buying orders combined with light selling to take Singapore lower in this trading. The Straits Times industrial index dropped 6.84 to 882.24. Several issues showed fairly moderate losses as some wary investors liquidated their holdings although most operators continued to opt for the sidelines.

Apollo Hotel was the most active issue and closed 2 cents lower at 40 cents. DBS was steady at S\$8.05 while Malayan Banking lost 10 cents to S\$6.15.

Genting fell 5 cents to S\$6.15. Hotels, properties and commodities were also lower.

Investment trusts are re-emerging as influential institutional investors in Japan's stockmarkets as deregulation and falling interest rates have spurred buying of trust funds by individual and corporate investors, writes Shigeo Nishitani of Jiji Press.

Trust funds had ¥20,310bn (\$125bn) in net assets at the end of last January and the total increased at a staggering pace to ¥30,170bn at the end of November. The first time it exceeded ¥30,000bn. By contrast, it took until the end of April 1983,